Common Market Reports

EUROMARKET NEWS

Issue No. 741 *Report No. 471, March 29, 1983*

IN THIS ISSUE

Community: Court of Justice Has Power to Interpret GATT

The Court of Justice has ruled that it has jurisdiction to interpret the General Agreement on Tariffs and Trade and any subsequent acts because on July 1, 1968, the Community assumed the obligations taken on by the Member States as GATT signatories. (On that date, the common customs tariff went into effect, and the Community assumed responsibility for external trade relations.) Two tariff protocols agreed to by the GATT members in 1962 and 1967 thus constituted acts by the Community institutions within the meaning of EEC Treaty Article 177, and disputes involving the interpretation of individual provisions of the two protocols could be referred to the EC tribunal, according to the Court (judgment of March 16, 1983, Case Nos. 290 & 291/81).

With this ruling, the Court has expanded its doctrine established in *Kupferberg*, where it held that the ban on discriminatory taxes or other restrictions contained in the EEC-Portugal free trade agreement could be enforced in the national courts (judgment of Oct. 26, 1982, Case No. 104/81). Now the Court has extended its jurisdiction to the Community's obligations under GATT.

This issue is in two parts. This is Part I.

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In two other judgments, the Court has also taken the opportunity to apply its line of thinking with respect to GATT's effects on EEC law. One case concerns disputes in Italy involving an oil pipeline company (SIOT), the finance ministry, the tax authorities, and the Trieste port authority over a transit tax on oil pumped from Trieste to Austria. SIOT claimed that the tax was contrary to GATT and Community rules. The Court held that the customs union implies free circulation of products within the EEC and hence free transit from one Member State to another. But the Court also said that a charge imposed on the use of waterways and harbor installations, and not merely on the movement of merchandise, is compatible with the free transit principle. There is no rule that companies can invoke against the imposition of a tax on merchandise in transit to Austria (judgment of March 16, 1983, Case No. 266/81).

The second judgment applies to three cases involving disputes between the Italian tax administration and two Italian companies (S.P.I. and SIAMI) over the legality of administrative fees on products imported from third countries. The Court held that, prior to July 1, 1968, the 1962 and 1967 protocols agreed to under GATT did not protect individuals and companies against administrative fees imposed by Member States on products imported from third countries, nor were Member States barred from imposing such taxes (judgment of March 16, 1983, Case Nos. 267, 268 & 269/81).

Seeking Sanctions Against Defaulting Member States

The European Parliament has called on the Member States to follow up on a proposed amendment to the EEC Treaty that would provide sanctions against any State that fails to comply with a Court of Justice judgment. At the present time, a national government's failure to obey Community law is not subject to any penalty. The absence of an enforcement procedure for Court of Justice judgments has concerned Commission and practicing lawyers and members of the EP for a long time *(Common Market Reports, Par. 9638)*. Of the 72 EC Court decisions handed down since 1973 against Member States for failure to fulfill obligations assumed under the Treaty, 40 have not been heeded. Most of these decisions involve the failure to comply with Council directives or to remove quantitative restrictions.

In a resolution calling for effective enforcement powers for the Court of Justice, Parliament points out that the Court had suggested in 1975 an amendment to close this gap. The amendment would have allowed the Court to specify the corrective steps a defaulting State must take. Also, there should be a systematic control over a State's compliance with a judgment, in the EP's opinion, and a State should be denied Community benefits, such as cash payments, until it complies.

The resolution represents the gist of a detailed report by the EP's legal affairs committee on the responsibility of the Member States for applying Community law. In the absence of penalties in the EEC Treaty, Member States that have infringed the Treaty should at least be obliged to offer compensation for losses incurred by individuals or companies as a result of the infringement, according to the report. For example, an importer who paid on imported merchandise an excise tax that was subsequently declared illegal by the Court of Justice should be entitled to a refund. The report suggests that in such cases the Commission ask the Court to require the State to repay the tax, with retroactive effect. So far the Commission has requested, and obtained, one judgment to this effect - Case No. 70/72 *(Common Market Reports, Par. 8217)*. Judgments such as this would make it easier to enforce claims for damages in the national courts, the report concludes.

In Brief...

As part of the most sweeping realignment of the four-year-old European Monetary System, involving all eight participating currencies, the German mark was revalued by 5.5% and the French franc was devalued by 2.5%. The March 21 realignment of these two key currencies was accompanied by devaluations of the Italian lira (2.5%) and the Irish pound (3.5%) and by revaluations of the Dutch guilder (3.5%), the Danish krone (2.5%), and the Belgian and Luxembourg francs (1.5%). The agreement on the third day of difficult negotiations, during which France and Germany were the main adversaries, averted a major clash among the EEC partners just prior to the start of the spring summit a day later; at one point, France even threatened to withdraw from the EMS + + + The Court of Justice has held Italy in default of EEC Treaty Article 95 (which bars discriminatory tax treatment of imported goods) for having levied a 35% value-added tax on imported alcoholic beverages, such as gin and brandy; the rate applied to similar domestic spirits, commonly known as "grappa," was 18%. (Since October 1982, the rates are 38% and 20%, respectively.) The Italian government tried to justify the higher VAT rate on imported spirits by contending that they are luxury goods. While allowing different tax rates according to objective criteria, the Court found the Italian government's criteria inadequate and discriminatory within the meaning of Article 95 (judgment of March 15, 1983; *Commission v. Italy*, Case No. 319/81).

Britain: Some Tax Relief in 'Unexciting' Budget

In presenting on March 15 what commentators described as an "unexciting" Budget, featuring some tax relief, the U.K. government proposed to make "further significant cuts" in taxes paid by both businesses and individuals. The Chancellor of the Exchequer, Sir Geoffrey Howe, said these reductions would be consistent with the government's medium-term strategy for effective control of the money supply, less public borrowing, and further progress in lowering inflation.

The Budget provides for the basic rate of income tax to remain at 30%, but there are increases in personal allowances and the various thresholds at which a higher tax rate is levied. Similarly, the rate of corporation tax payable by large companies is unchanged at 52%, but the rate for small companies has been reduced from 40% to 38%, applicable to profits as of April 1, 1982. This small-company rate applies to corporate profits up to £100,000. Marginal relief is available up to £500,000, compared with only £225,000 previously.

The rate of advance corporation tax (ACT) is likewise the same, at 3/7ths of the dividend paid, but the government proposes to reverse the order in which ACT and foreign tax are set off. For accounting periods (business years) ending after March 31, 1984, a company will be able to apply foreign tax against corporation tax attributable to foreign income before any ACT is set off. The effect of this change is that credit may be taken for foreign tax that would otherwise be lost, thus releasing ACT for alternative use.

The government intends to introduce legislation on tax havens "which takes account of the recent consultations." But, this measure would not come into effect until April 1984 and must be viewed in the light of the ACT proposals and the resulting double tax relief. Howe said there would not be an increase in the overall tax burden on international business but a switch in the burden "away from those who remit profits home and onto those who accumulate surplus cash balances in tax havens overseas." The Chancellor is not proceeding this year with measures concerning company residence and upstream loans, since both need "further consideration."

There is to be a reduction of 0.5%, to 1%, in the national insurance surcharge payable by employers, as of Aug. 1. This reduction would result in a saving to employers in the private sector of £390 million in a full year.

The Budget includes modest increases in excise duties of 4 p on a gallon of gasoline, 25 p on spirits, 5 p on wines, and 3 p on a package of 20 cigarettes, among other increases.

Certain areas are to be designated as free ports later this year to allow the storage and manufacture of goods in a zone free from customs controls. However, this arrangement is to be introduced on an experimental basis only.

The director general of the Confederation of British Industry, Sir Terence Beckett, said that the Budget strengthens the trend toward recovery and will encourage enterprise. The reduction in the NHI surcharge is a "step in the right direction" toward eventual removal of the levy, he said. The trade unions claimed that the Budget does nothing to give the economy a boost.

Belgium: Martens Requests Emergency Powers Extension

In a tumultuous session on March 16, Prime Minister Wilfried Martens asked the Belgian parliament for an extension of the government's special emergency powers until the end of the year. Martens said this extension is necessary to continue the budget consolidation and improve the economic situation generally. He proposed further spending cutbacks and some tax increases in order to close the 1983 budget deficit, which already exceeds the original projections by BF 52 billion. The premier's speech was constantly interrupted by loud protests from the opposition Socialists, who are totally against an extension of the emergency powers.

The new powers sought by Martens would not be as far-reaching as those of last year, when the most important, and most controversial, policy issue centered on scaling down the inflation indexation of wages. This year the priorities are budget consolidation and job creation measures. The government has not succeeded in implementing pay limits for 1983, but it has set a signal for the private sector by negotiating public sector pay raises that will remain 2.5% below the anticipated inflation rate. At the same time, the workweek in the public sector was reduced by one hour (to 37 hours), without pay adjustments.

In his parliamentary address, Martens underscored his government's determination to reduce public borrowing to 7% of GNP by 1985. This target compares with 11.4% last year and 12.7% in 1981. The unforeseen budget shortfall of BF 52 billion is to be offset by BF 29 billion in additional spending cutbacks (mainly in the social welfare, health, and education sectors) and higher social insurance contributions and taxes. The most drastic measure involves the proposed taxation of unemployment insurance benefits for households with an annual income of BF 750,000 or more. For a four-month period, unemployment insurance contributions of all workers would be raised by two full points, from 0.87% to 2.87%. The government wants to take advantage of falling oil prices by raising the tax on all petroleum products, except heating fuel. The payment of year-end bonuses to public sector employees would be postponed until early 1984.

Italy: Senate Clears Way for Introduction of Mutual Funds

The Milan bourse reacted with elation on March 18 to the news that the Italian Senate has passed legislation that will permit the introduction of domestic mutual funds on the stock exchanges. (The lower house had previously approved the measure.) A number of the country's leading banks, insurers, and finance companies have already made plans for the introduction of their own funds beginning in the fall. Financial observers predict that the mutual fund business will greatly stimulate the stock market, bring in new investors, and lead to more share offerings.

Major Questions Over January's Wage Cost 'Pact'

Some eight million workers in various Italian industry sectors are currently waiting for the renewal of their expired collective contracts. Most of these renewals had seemed only a formality after the conclusion last Jan. 22 of the much-touted national agreement between the government, the employers, and the unions on cutbacks in the *scala mobile*, the wage indexation system. The consensus had been hailed by the government as a "historic" breakthrough, but since then only the employers and the unions in the private chemical industry have signed a new collective contract.

The delay in contract renewals is blamed largely on the government, which finds itself accused of having made its own *scala mobile* deals in separate negotiations. In doing so, the critics say, the Fanfani administration was apparently more interested in boosting its popularity rating than in having all sides agree on exact figures. The labor unions maintain that they had given their approval to a 15% reduction in inflation indexation, while the Confindustria industrial federation claims that it was 25%. Technicalities apparently account for only part of this large difference, while most of the blame rests on Labor Minister Vicenzo Scotti, who allegedly made conflicting concessions in order to achieve a speedy settlement. Scotti himself has denied this, and he is firmly siding with the unions on the matter.

The employers, aside from being faced with the percentage problem, also see the government backing away from various fiscal and other concessions to them because of parliamentary resistance. For instance, the lower house has rejected the proposal that would allow employers to select at least half of any newly hired workers themselves rather than be bound by the labor offices' lists of unemployed. Parliament is also opposed to the introduction of controls on all individuals who claim a "handicapped" status, which entitles them to preferential treatment over other unemployed persons. (Italy officially has a population of 5.5 million handicapped, which is ten times that of West Germany, for instance.)

Alfredo Solustri, Confindustria's director general, meanwhile has made it known that a unilateral withdrawal of the government's previous commitments would force the employers to insist on renegotiating the Jan. 22 agreement.

Germany: Bonn Stymied on Medical Cost Cutting Plan

The Kohl administration is at present unable to fulfill a self-imposed commitment to hold down soaring medical costs in Germany. Last December's economic revival program *(Doing Business in Europe, Par. 40,470)* included statutory powers for the government to draw up a list of medications for minor ailments that the health insurance funds would no longer have to pay for after April 1. Bonn has now abandoned drawing up such a list because it could not come up with a definition of "minor ailments." Nevertheless, the government plan may still materialize, though on a lesser scale.

The basis of the plan was that, by making patients pay for such medications, the health insurance funds could not only avoid raising contribution rates but could even lower them slightly *(Doing Business in Europe, Par. 23,454)*. When the government made the proposal to Parliament last November, it drew immediate criticism from the national medical association, the drug industry, and the health insurance funds. All sympathized with the objective but doubted the estimated savings of around DM 500 million annually. The approach was criticized, as were the government's qualifications to make up the list. (Leading members of the medical profession maintain that no doctor examining a patient for the first time can be absolutely sure that any symptoms are those of a minor ailment.)

Representatives of the national health insurance funds and medical associations have agreed that after April 1 patients should pay for traditional remedies against colds, sore throats, constipation, and other minor ailments. In leaflets to be laid out in doctors' waiting rooms, both the financial and the medical sides of the cost cutting plan will be explained. It is estimated that the resulting savings will total DM 100 million annually.

Switzerland: Defeat for Anti-Banking Secrecy Proposal

By an overwhelming majority of 105 to 50 votes, the Swiss Parliament's lower house on March 17 rejected a Social Democratic Party proposal for a relaxation of the country's banking secrecy laws. It is expected that the upper house will soon follow the lead of the National Council. In effect, Parliament is recommending that Swiss voters reject the Social Democratic initiative when it is put before them in a national referendum sometime within the next two years.

The initiative was started in 1979, following the collection of 122,000 signatures, and is directed "against the abuse of banking secrecy and against banking power." The proposal would require banks and other financial institutions to disclose to both Swiss and foreign government agencies far more information about depositors than at present. Aside from stiffening government controls, it would also limit banks' industrial holdings and place restrictions on certain banking activities.

The call for a softening of the banking secrecy provisions gathered momentum during the economic boom period of the 1970s and has been supported by an international lobby led by Socialist and Communist developing countries and also by church organizations in Geneva. As the economic climate turned cooler, these voices grew quieter, and commentators said the parliamentary vote has shown that full employment is more important to the Swiss than "dubious moralist demands," a reference to warnings by the banking community that the proposal, if successful, could mean unemployment for many of the country's 100,000 bank employees.

Independent of the parliamentary debate, the banks themselves have done much in the last few years to stop the inflow of illegal funds from abroad. These efforts were mainly triggered by the disclosure of the "Chiasso affair" in 1977, when Crédit Suisse, one of the country's Big Three, lost over SF 1 billion as a result of transactions involving illegal capital transfers from Italy. Last year, the banks tightened a voluntary code requiring them to take "due care" *(Sorgfaltspflicht)* in identifying individuals making deposits. In addition, they have agreed to voluntarily release deposit information in cases involving illegal insider transactions in the U.S. Anyone purchasing shares through a Swiss bank is now requested to release the bank from the secrecy pledge should there be subsequent proof of insider trading in the U.S. relating to these shares.

Western Europe: 51% of U.S. Investments Abroad in 1982

The industrialized countries of Western Europe accounted for about 51%, in terms of numbers, of new U.S. investments abroad last year, according to the Conference Board, a business-supported U.S. research concern. Europe attracted 98 of 193 U.S. foreign investment projects in which American companies had at least half ownership. Of the European total, 28 investments went to the U.K., 19 to France, and 17 to West Germany.

The Conference Board said that the number of foreign investment projects by U.S. manufacturers went down from 1981 by about 20%, mainly because of sluggish economic conditions. The same trend was observed for foreign manufacturing investments in the United States last year, which dropped to 271, from 348 in 1981 and 388 in 1980.

Common Market Reports

EUROMARKET NEWS

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Community: Objections to Exclusive Agreements Drafts

The Economic and Social Committee has expressed a number of reservations about the Commission's two draft regulations concerning exclusive distribution and exclusive purchasing agreements *(Common Market Reports, Par. 10,406)*. The purpose of the regulations is to grant block exemptions under Treaty Article 85(3) for certain agreements because the processing of individual applications for an exemption takes a very long time. The new regulations would replace Regulation No. 67/67, which expired at the end of last year but was extended until June 30, 1983. The extension gives the Commission the opportunity to study all the points raised, including the ESC's objections *(Common Market Reports, Par. 10,430)*.

The Economic and Social Committee urges the Commission to carefully consider the impact that the proposed regulation on exclusive distribution agreements would have on smaller firms. The proposal would give the benefit of a block exemption to small and medium-sized companies with annual sales of no more than 100 million ECUs. More time must be allowed before the regulation takes effect, the ESC says, in order to permit en-

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terprises to bring their agreements in line with the regulation and to allow the Commission to make formal decisions about agreements concluded prior to the expiration of Reg. 67/67 and not in compliance with the new regulation. The committee believes the regulation should provide that existing agreements complying with Reg. 67/67 and notified to the Commission within six months of the new regulation's adoption should continue to benefit from the exemption unless the Commission takes a decision to the contrary.

With respect to the proposed regulation on exclusive purchasing agreements, the ESC does not understand why these agreements should be taken out of the natural context of exclusive distribution agreements. In the committee's view, the Commission should concentrate on broad principles and confine regulations to general categories of agreements.

Except for contracts between breweries and tavern owners and between oil companies and gas stations, which may run up to ten years, the proposal would exempt only arrangements of three years' duration where the supplier grants the dealer special commercial or financial advantages. The Commission should explain this proposed requirement, which, in the ESC's view, is too vague and is likely to cause difficulties for the national courts as well as the parties involved. The regulation should not deny the parties to the agreement the benefit of an exemption just because of special advantages accorded by the supplier, the ESC says. Finally, the ESC believes that Article 2, which describes dealer commitments that would nevertheless allow an exemption, should be expanded so that a commitment to refrain from competing or to buy minimum quantities would also not prevent exemption.

Commission to Attack State Aids to Public Enterprises

The European Commission is preparing to launch an attack against the Member State governments' practices of aiding state enterprises. The EC executive has been acting against illegal state aids to industry for years. Transportation, energy, and finance are the sectors that the Commission wants to investigate, in particular the financial relations between the governments and the public enterprises operating in these sectors. Commission officials expect resistance from several Member States when it presents its demands for information and cooperation.

Public enterprises are subject to EEC competition rules, and Treaty Article 90(2) exempts them only to the extent that application of these rules interferes with the specific functions they perform for the public good *(Common Market Reports, Pars. 2351, 2361)*. The public utilities, as well as the publicly owned radio and TV networks, may be included. There is some doubt whether state-owned banks should continue to benefit from the exemption without any scrutiny of their financial dealings with the respective governments. With the Court of Justice's backing, the Commission hopes to find out whether, and to what extent, the Treaty's state aid rules are being violated.

Last year the Court of Justice rejected suits by France, Italy, and the U.K. seeking to void the Commission's 1980 directive on the transparency of financial relations between governments and public enterprises (judgment of July 6, 1982, Joined Cases Nos. 188-190/80). This directive obligates Member State governments to monitor any kind of financial support to such enterprises; governments must retain pertinent records for five years and furnish relevant information should the Commission ask for it.

Commission officials foresee a major problem once the Member State governments have furnished the requested information. They believe the antitrust division will not have enough staff to handle all the material. In 1981 and '82, the division started 190 investigations involving illegal state aids to industry, compared with a total of 195 from 1970 through 1980.

In Brief...

The European Court of Justice has rejected the appeal brought by Germany's GVL (Gesellschaft zur Verwertung von Leistungsschutzrechten mbH) against a 1981 Commission decision *(Common Market Reports, Par. 10,345)*. GVL, a company acting on behalf of performing artists, has refused to represent foreign artists not living in West Germany in their royalty claims against music users, such as broadcasting stations. This refusal deprived the artists of royalties owed to them and was, in effect, a form of discrimination based on nationality. In its decision, the EC Executive had said that GVL's refusal to conclude contracts with nonresident foreign artists constituted an abuse of a market-dominating position within the meaning of Treaty Article 86. (Judgment of March 2, 1983, Case No. 7/82.) + + + West Germany's Grundig and Holland's Philips corporations have dropped a dumping charge against Japanese manufacturers of video recorders following the Japanese government's action establishing an export floor price for video sales to the Common Market. The export floor price commitment was part of the Feb. 12 agreement between the EEC and Japan that limits Japanese sales to 4.55 million units this year and guarantees European manufacturers sales of 1.2 million units.

France: Paris Imposes Harsh Austerity Measures

The French cabinet, meeting in a special session on March 25 under the chairmanship of President François Mitterrand, has approved a ten-point economic austerity program aimed at containing the deficits in the state budget, the national health and social security systems, and foreign trade. The catalog of measures "to restore the external balance" followed the 2.5% franc devaluation three days earlier and was described by observers as the "most brutal" in 15 years.

The measure that received the most public attention lowers the foreign currency allowance for French tourists from FF 5,000 to FF 2,000 annually (FF 1,000 for children). The use of credit cards in foreign travel is virtually prohibited; some exceptions are permitted only for business travel.

In the financial sector, certain forward transactions in foreign exchange are subject to restrictions. On the other hand, businesses will be allowed to raise foreign loans of up to FF 50 million (previously FF 10 million) without prior official approval.

A central feature of the austerity program is an obligatory state bond purchase equal to 10% of income and net worth taxes paid last year. Income tax payments below FF 5,000 are not affected, however. The bond is to be issued next month, with a maximum maturity of three years; the interest rate has not been set yet but is said to be "attractive." The bond revenue of FF 14 billion is to be used to finance already budgeted projects of industrial renewal and export promotion.

In the area of the state budget, expenditure cutbacks of FF 15 billion are to be augmented by a tax designed to maintain the retail price of oil products at current levels. This levy will thus fluctuate in relation to the oil prices and the dollar exchange rate. The government estimates that the measure will result in reductions of FF 20 billion in its 1983 deficit, which originally had been set at FF 120 billion.

In the social insurance sector, a one-time 1% surcharge on all taxable incomes will generate the bulk of the revenue needed to achieve an FF 13 billion cut in the deficit. Further revenues are to be raised via additional alcohol taxation and hospitalization cost contributions by patients (already approved last fall). Another FF 4 billion is to be saved in the health insurance sector and in family allowances.

The government has asked the public sector enterprises to systematically reduce their deficits by saving another FF 3 billion. (Total savings of FF 4 billion had already been decided earlier.) Rate and fare increases averaging 8% for gas, electricity, telephones, and rail services went into effect on April 1, earlier than originally planned, and are expected to raise FF 2.5 billion in additional revenue.

Mitterrand Streamlines Cabinet, Addresses Nation

French President François Mitterrand has reshuffled and streamlined his cabinet but kept Premier Pierre Mauroy in charge of it. The personnel changes were designed to lend emphasis to certain policy changes without sacrificing continuity. The reorganization reduced the cabinet by more than half, to 15 major portfolios.

Among the most noteworthy changes is the strengthened position of Economics and Finance Minister Jacques Delors, who has also been given responsibility for budget matters. The previous budget minister, Laurent Fabius, has replaced Jean-Pierre Chevènement as head of the industry and research ministry; Chevènement was dropped from the cabinet after complaints that he had tried to "meddle" too much in the affairs of the nationalized industries. The foreign trade ministry was turned over to Edith Cresson, previously agriculture minister. The previous head of the foreign trade ministry, Michel Jobert, had voluntarily resigned his post three days earlier, saying that he had not been given the powers to do his job effectively.

On March 23, one day after the formation of the new cabinet, President Mitterrand went on television to ask that the nation support the government's latest efforts to fight inflation, reduce unemployment, and bring down the deficits in the state budget, foreign trade, and the social insurance and health systems. Mitterrand made a strong plea for a "Buy French" campaign and exhorted his countrymen to save rather than consume.

Germany: Coalition OKs 1983-87 Program to Revive Economy

Germany's governing coalition parties, the Christian Democrats, Christian Social Union, and Free Democrats, have agreed on a program for the 1983-87 legislative session that would continue on the course charted last October to pull the economy out of its worst recession since 1950 *(Doing Business in Europe, Par. 40,470)*. The federal government would borrow less on the capital markets in order to make it easier for businesses to finance needed investments, and there would be further cutbacks in welfare spending. Both of these measures are considered essential for attaining the Kohl administration's ultimate goal of lowering unemployment.

Taxes would not be increased during the new government's four-year term because the coalition parties believe that higher taxes are not the answer to the economy's problems. In fact, the parties agree that the tax burden on businesses should be reduced by some DM 4 billion each year, starting in 1984; the figure corresponds to the additional revenue expected from the higher value-added tax (up 1%, to 14%, as of July 1).

Business taxpayers can expect further trade tax relief and also some easing of their net worth tax burden. A doubling of the loss carry-back amount, to DM 10 million, is also included in the program. However, employers will have to reckon with slightly higher social security contributions in addition to the regular annual increases: bonuses granted to employees at

Christmas and for vacations and anniversaries would be divided by 12 and added to each month's pay for social security contribution purposes. This innovation is expected to bring in DM 1.6 billion in additional revenue.

The law passed late last year imposing a 5% surcharge payable by individual taxpayers in the high income tax brackets would be amended. Single taxpayers earning more than DM 50,000 annually (married taxpayers, more than DM 100,000) would have to pay the surcharge not only this year and in 1984 but also in 1985. The money would be paid back, but not until 1990-1992; present law provides for repayment in 1987-1989.

Next to reducing unemployment, the government's major problem is how to rescue the old-age pension funds from bankruptcy. An estimated DM 6 million deficit has been projected for the funds next year, and,since the government is not prepared to borrow the needed money, some other solution must be found. Cutting unemployment benefits for young and single unemployed persons (to 62% of last wages instead of 68%) is one suggestion, but it would effect only a minor saving. Reducing civil servants' broad fringe benefits is also planned but may be difficult to put into practice. A major saving could be achieved by asking further sacrifices of the recipients. The coalition parties have not specified what the sacrifices might be, but Labor Minister Norbert Blüm has been asked to come up with proposals.

Britain: Report on Accountants' Self-Regulation Needs

The U.K. accounting profession should have a vital interest in seeing its self-regulating processes work and also having these processes "work in the public interest, not only in the self-interest of its members." This conclusion is one of several critical statements submitted in a commissioned report by an Oxford University reseacher, Robert Tricker, on the basis of an 18-month review of the operations of the Institute of Chartered Accountants in England and Wales. Observers said Tricker's report is bound to stir up considerable controversy within the accounting profession.

In his study, Tricker makes far-reaching proposals on how the ICAEW should respond to a rapidly expanding membership. He sees a need to improve the Institute's "standing, status, and influence" in society generally and "with legislators, regulators, and business opinion formers in particular."

The report suggests the creation of six sub-groupings, or subject "conferences," reflecting and representing the specific interests of members - for instance, those of chartered accountants in private practice and those employed in industry. The six categories envisaged would include (1) general practice, providing financial services to nonpublic companies and other businesses as well as individuals, (2) taxation, (3) insolvency, (4) management accounting and information systems, (5) financial management and treasury functions, and (6) auditing and financial reporting in public companies. ICAEW members would be permitted to join only one of these categories. A "conference" governing body would be elected, but members would not be allowed to vote or interfere in the policy or deliberations of groups other than their own.

Tricker also advocates a fundamental reform of the Institute's governing council. He proposes a change in its present composition as well as the electoral process, so that the common interests of members are reinforced. At present, 75% of the council membership is elected and 25% co-opted. In the future, Tricker recommends, 50% should be elected regionally, 40% chosen by the six subject conferences, and only the remaining 10% co-opted.

The report was commissioned to examine the practical needs of an organization whose membership has increased by 63% over the past ten years and now stands at 75,000. ICAEW President Eddie Ray said there is no truth to the implication that the report was prompted by complaints from some of the Institute's members that its electoral processes are undemocratic.

Belgium: Bank Rates Lowered by Full Three Points

The Belgian National Bank on March 23 lowered its discount and Lombard rates by a full three points, to 11% and 12%, respectively. The move brought the rates to their lowest levels since December 1979 and followed the latest currency alignments in the European Monetary System. The rate reductions more than offset the 2.5% increase imposed on March 8 to counter speculation against the Belgian franc, and foreign exchange dealers saw in the magnitude of the cut a demonstration of the central bank's confidence in the renewed stability of the domestic currency. It was expected that the recently imposed emergency currency controls would also be rescinded in the very near future.

Italy: Government Wins Passage of Finance, Budget Bills

The Italian Chamber of Deputies on March 27 passed the 1983 Finance Law by a vote of 299-169. The legislation would authorize 76,000 billion lire in public borrowing. It still requires the approval of the Senate.

On March 28, Prime Minister Amintore Fanfani relied on a vote of confidence to push the administration's 1983 budget through Parliament as well. The bill went through in record time, mainly because the government wanted to prevent the opposition from attaching additional spending measures to it. The budget limits government spending to last year's level of 71,000 billion lire, which would fall just short of 14% of GNP.

According to Budget Minister Guido Bodrato, the Italian GNP dropped by 0.3% in 1982 against the previous year. However, Bodrato said the government had made some progress in fighting inflation: despite the fact that consumption rose by 0.6% last year, the average rise in the cost of living dropped from 19.8% to 16.5%.

Sweden: Government Plans 'Production Factors Tax'

Sweden's Social Democratic government plans to introduce, possibly before the end of the year, an entirely new element in the country's tax system, with the aim of taxing employment income and capital income in about the same way and spreading the fiscal burden more equitably. The Social Democrats, who were returned to power last fall after six years in opposition, have been campaigning for a "production factors tax" since the late 1970s. Their finance minister, Kjell-Olof Feldt, claims this tax would have the advantages of not being inflationary, of limiting chances for evasion, and of producing new revenues for the state.

Specifically, Feldt is looking for long-term financing of the income tax reform that was enacted this year. The reform resulted in lower tax threshold rates for taxpayers but costs the state an equivalent of 1.5% of GNP in revenues. This year the reform is being financed by additional employer contributions (a kind of payroll tax), but Feldt believes that this system places an unfair burden on labor-intensive businesses to the advantage of capital-intensive businesses; moreover, the payroll tax encourages rationalization investments and thereby the loss of jobs.

According to the government's current thinking, the production factors tax would be levied not only on payroll but also on capital return. The latter would be taxed on the basis of interest costs and profits, set off against interest income, losses, and inventory changes. Feldt wants to combine the introduction of the new tax with a general reform of corporate taxation, which has grown exceedingly complicated.

The Swedish industry federation believes that a production factors tax would distort competition to the detriment of Swedish exporters because only domestic products would be affected. Also, investors would find it more attractive to invest their capital abroad or in non-manufacturing sectors.

Common Market Reports

EURÒMARKET NEWS

Issue No. 743 Report No. 472, April 14, 1983

IN THIS ISSUE

Community: Mounting Opposition to VAT Deduction Proposal

The Commission's 12th value-added tax draft directive is said to have little chance of being approved by the Council in its present form because of mounting opposition to the measure in several Member States. If adopted in its present form, the directive would require the States to deny businesses the deduction of value-added tax paid on company cars, business lunches, travel expenses, and luxury items used to entertain customers. Deduction of prior VAT allows a business to reduce its value-added tax liability. National rules governing the deduction differ substantially, which is why the Commission proposes alignment at zero level. Denying businesses the deduction is also necessary in order to help the national tax authorities fight tax evasion, the EC Executive says *(Common Market Reports, Par. 10,453)*.

In 1973 the Commission had proposed in its Sixth VAT draft directive that businesses be denied the right to deduct from their VAT liability the value-added tax paid on the purchase of company cars. The German government withheld its approval of

This issue is in two parts. This is Part I.

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the draft until Article 17 of the directive was changed to delay Community action on curtailment of the deduction of prior VAT *(Common Market Reports, Par. 3165S)*. When the previous German administration wanted to repeal the privilege because it needed the revenue, the upper house of Parliament rejected the bill.

In Germany, where opposition to the proposal is greater than in any other Member State, representatives of several industry associations and many businesses have taken their complaints to government leaders and found an open ear for their grievances. Businessmen cannot see the rationale of tampering with the very core of a system that treats VAT as a transitory item in a company's books. They say that VAT paid on a company car should remain deductible because the car represents an unavoidable business expenditure.

German business executives disagree with the Commission's argument that the measure is needed to fight tax evasion. They cite a German tax practice whereby an executive using a company car for private purposes is assessed income tax on the value he derives from using the car. If a businessman takes a business trip, he may deduct as a business expense only the amount exceeding the expense he would normally have incurred at home. Executives also consider superfluous the proposed denial of deduction of VAT paid on luxury items used for entertainment and as business gifts.

Seeking to Improve Shipyards' Situation

Worldwide overcapacities require additional cutbacks in the Community's shipbuilding industry, according to a recent Commission report, and emphasis should lie more on qualitative and less on quantitative adjustments.

The Commission had two objectives in drawing up the report: (1) it wanted to demonstrate what it considers necessary to live up to its watchdog role in controlling national aid to shipyards, and (2) it wanted the interested parties - the Member State governments and the national shipyards - to be aware of new prospects for action. In this regard the Commission shares the view expressed by the European Parliament in its resolution concerning the extension of the Fifth Directive on aid to shipbuilding. In that resolution, passed in February, the EP points out that reductions in capacity as a result of the policy to reorganize the EEC shipbuilding industry have been severe, and it is vital that any tightened control over aid be accompanied by the implementation of a policy to modernize and defend this sector. The Commission also agrees that there must be limits to pruning shipyard capacities, not only for strategic reasons but also because of the social and regional problems that production cutbacks entail. Nevertheless, there are a number of shipyards that will have to make further restructuring efforts, the Commission notes.

Ongoing action to improve competitiveness and productivity is the best way to ensure a long-term future for the shipyards in the Common Market, according to the Commission. The Commission also believes it is the shipbuilding industry's responsibility to plan its future and then take the necessary steps. Future efforts must focus on the modernization and rationalization of production facilities and methods as well as on innovation and technical development. It cannot be a matter of action by each shipyard alone, the Commission believes, because the Community's industry, made up mostly of small and medium-sized yards, is facing massive competition, especially in Asia. To overcome this handicap, the Commission suggests more cooperation among shipyards on the national and Community levels. Improved cooperation could take many forms, such as specialization and division of labor, joint research and development for major projects, and more standardization.

In Brief...

The Court of Justice has ruled that the second sentence of Article 45(1) of the Act concerning conditions of Greece's accession to the Communities must be interpreted in the sense that national provisions and restrictions concerning work permits for Greek nationals remained valid even after the Treaty of Accession took effect (Jan. 1, 1981). A Greek woman emigrated to West Germany in November 1980 to join her husband. Her application for a work permit was denied in line with an amended German law enacted on Oct. 1, 1981. A German court saw a conflict of German law with the Act on the conditions of accession, under which the nine other Member States and Greece may retain until 1988 their national provisions requiring prior authorization for immigrants wanting to take up employment *(Common Market Reports, Par. 7516)*. The EC tribunal stated that during the transitional period Germany was authorized to tighten existing conditions governing access to employment (judgment of March 23, 1983, Case No. 77/82) + + + Greece can expect some 2.5 billion ECUs in aid from the Community if the Council approves proposals submitted by the Commission. These measures, part of the Commission's recent integrated Mediterranean program, are seen as a response to the Greek government's March 1982 memorandum seeking a special status in relations with the EC. One proposal would lift the January 1984 deadline for introducing the value-added tax system in Greece; instead, the Commission and Athens would work out a new timetable for a tax reform.

Germany: Unique Contracts for Workers in Chemical Industry

The agreement that the West German chemical workers' union has reached with employers on shortened workweeks for older shift workers has caused consternation in other industries. Employers fear that the agreement will set a costly precedent and that other unions will seek to improve on it. Many union leaders, on the other hand, see union solidarity as having been broken because the contract confirms the principle of the 40-hour workweek for younger workers, which the unions are trying to get away from, and they also see their maneuvering room restricted in future wage talks elsewhere.

Besides a 3.2% increase in wages for the 670,000 workers in the chemical and ceramics industries, the contract allows employees over 58 to work less per week without a loss of pay - 38 hours as of next Sept. 1 and 36 hours as of Sept. 1, 1987. Around 50,000 workers will benefit from the shortened workweek rule. Originally the union had sought a 35-hour workweek for shift workers over 55. If the union, the country's third largest, had had its way, about 70,000 workers would have benefited.

The wage talks prior to the agreement were unique for both sides: the chemical industry broke rank by agreeing to talks about shorter workweeks, although this issue had been on the so-called taboo list of the national employers' federation (BDI), and union negotiators reportedly did not rely on ideological arguments, which are often used in collective bargaining, especially in the metalworking industry. Also, no strikes accompanied the talks.

Economists doubt that the shortened workweek in the chemical industry will really make a dent in unemployment. The union negotiators hope that employers will hire people to do the jobs of those older employees who will work less. This is possible in large chemical companies, where major industrial processes are fully automated and computerized. In medium-sized enterprises, where much of the work is still done manually, the contract could herald the era of job-sharing in Germany, although the impact would probably be minimal.

No Letup in German Direct Investment Abroad

Despite the economic recession, German direct investment abroad last year continued at nearly the record pace set in 1981. According to an Economics Ministry report, net transfer payments in connection with private direct investments totaled DM 9.76 billion, which was only slightly less than the DM 9.82 billion reported for 1981. The most important target country for German investors continued to be the U.S., with an investment volume of DM 3.2 billion, followed by Britain (1.1 billion), Belgium/Luxembourg (749 million), and Brazil (603 million). There was a notable increase in German investment in Europe (from roughly DM 3 billion to DM 4 billion) but a sharp decline in North, Central and South America (from DM 5.6 billion to DM 4 billion).

The leading foreign investors in Germany last year were the United States (DM 1.2 billion), followed by the U.K. (664 million) and Switzerland (490 million). Foreign direct investment in Germany totaled DM 6.4 billion last year.

Britain: Economic Program for Northern Ireland

The U.K.'s Secretary for Northern Ireland, James Prior, has announced new economic measures, which he says would make Northern Ireland the most attractive area for industrial investment in Europe and "possibly in the Western world" and would have a "marked effect" on relieving unemployment in the region.

A major feature of the package would be a corporation tax relief grant, by which certain companies would be reimbursed for up to 80% of corporation tax paid on profits generated by approved projects. This grant would form part of the selective financial assistance to be administered on a discretionary basis by the Industrial Development Board and the Local Enterprise Development Unit. It would be available to both new and expanding industries and should be a new major attraction to potential investors. The grant would be non-taxable and would depend upon the extent to which a company reaches its previously accepted employment target and also the degree to which its total profits are related to the assisted part of its activities.

In recognition of Northern Ireland's severe economic problems, industrial premises would be completely exempt from any property tax. At present, such premises pay 25% of the approved rate. An energy conservation plan is to be introduced to encourage industry to increase efficiency and competitiveness. Grants at the rate of 30% would be offered selectively toward the net cost of approved conservation projects, such as waste heat recovery. A management incentive plan is also proposed; it would provide grants in appropriate cases to help companies attract and recruit good quality management. An advisory service to industry would be set up to help companies improve their production methods and processes.

In the wake of these incentives, the Industrial Development Board for Northern Ireland is hoping to create 5,000 new jobs within the next 12 months - 3,000 from expanding industry at home and a further 2,000 from attracting overseas investment. However, this is only half the projected target of 10,000 for 1985-86. The chief executive of the IDB, Saxon Tate, said the ideal figure would be an annual increase of 20,000 new jobs. (The largest total in recent years has been 7,000 in 1966, when the Northern Irish economy was relatively buoyant.)

France: Some Easing of Currency Curbs, Other Rules

Bowing to strong public protests against its latest economic austerity measures, the French government has eased slightly some of the stringent currency restrictions imposed on residents, including foreigners. Business travelers may take out foreign currency in the equivalent of FF 1,000 per day and per trip, whereas tourists are restricted to FF 2,000 per year. Special exemptions apply to individuals taking part in humanitarian projects (for instance, physicians and medical personnel), to those undergoing education or training abroad, and to participants in sports events. There are no restrictions on paying for medical treatment abroad. For persons under the age of 25 who are learning languages abroad, the foreign exchange allowance has been doubled, to FF 4,000 per year.

Rules were also relaxed concerning the use of credit cards abroad. While tourists are prohibited from using personal credit cards, businessmen are allowed to use French-issued company cards (issued in the name of the employer). However, even business travelers may not draw cash on credit cards while abroad.

The easing of some of the currency restrictions came after the country's travel promoters took to the streets of Paris on March 30 to protest the measures. The national travel agents' association said a large percentage of the 18,000 persons employed in the travel sector would face unemployment if the curbs were carried through. Also, the countries most affected by the French "ban" on foreign travel might impose retaliatory measures, the association said. (The 8 million French tourists who annually go abroad visit mainly Spain, Italy, and Greece.)

Aside from retreating from some of the latest foreign exchange restrictions, the Mitterrand administration made some concessions elsewhere. For instance, it postponed from July 1 to Sept. 1 the introduction of the special levy on taxable income (to finance the social security system's deficit). Nevertheless, the government made it clear that despite the modifications, the core of the austerity package is not subject to negotiation. Thus, on April 1, a series of price and rate increases of at least 8% went into effect for gas and electricity, telephones, private clinics, and rail services. An extra tax of FF 10 per bottle has been imposed on alcoholic beverages; cigarettes cost 25% more, and any reduction in oil and fuel prices is not to be passed on to the consumer but "taxed away" by the government.

Belgium: Currency Controls Relaxed; Aid for Liège

The Belgian government as of April 5 partially rescinded currency controls that had been imposed on March 14 to counteract speculation against the Belgian franc. Belgian businesses no longer have to convert immediately any export revenues into Belgian francs. Foreign currency assets held in regulated accounts need no longer be converted into francs but can again be used to finance imports. However, the BF 20 million limit on banks' foreign currency liabilities and the provisions for severe penalties in the case of currency rule violations remain in force.

In other news, the Belgian government has provided rescue funds of BF 1 billion to enable the city of Liège, which is technically bankrupt, to pay its employees. The assistance is given on the condition that Liège submit a long-term financial rescue plan by the end of this month. Burdened with a municipal debt of BF 50 billion, Liège has contemplated issuing promissory notes to pay wages, salaries, and rents as well as using the notes as collateral for bank loans.

Spain: Registration Rules for Foreign Shareholdings

Existing foreign shareholdings in Spanish companies must be reported to the authorities within two months, according to a decree published on March 15 in the official journal by the government's general directorate for foreign transactions. By May 16, any capital participation by a foreign enterprise or individual in a Spanish company must be reported by the company to the foreign investment register held at the Ministry of Economics and Trade. Companies that are majority controlled from abroad must also report their own participations in any domestic companies by that date. The decree was accompanied by the publication of a list of more than 2,000 Spanish businesses that are majority controlled from abroad.

The registration requirement for foreign majority shareholdings and for domestic participations of foreign-controlled companies has been in existence for years; what is new is the reporting requirement for any foreign shareholdings in Spanish businesses as well as the two-month deadline. Observers do not believe that the government is likely to change its basically positive attitude concerning foreign investments. Nevertheless, noncompliance with the regulations could lead to difficulties - for instance, in the transfer of dividend payments abroad.

In other news, outstanding debts to the social security system of Spanish firms are estimated to have reached 832 billion pesetas, after increasing by 200 billion pesetas last year. The debts account for 30% of the total social security budget this year. A considerable part of the debt is owed by companies undergoing bankruptcy proceedings or already wound up. Other businesses in financial straits apparently have been falsifying their social security returns; in Barcelona, 30 persons were arrested for such practices. The government has now offered companies in arrears a quasi amnesty under which declared social security debts can be repaid over three years.

Bank Employees' Walkout Could Set Off Strike Wave

A walkout by the country's bank employees, which effectively closed banks for a full week over the Easter holidays, could set off a strike wave involving up to 500,000 Spanish workers. Their unions are now engaged in pay talks aimed at getting the most out of a national framework agreement signed earlier with the employers; the agreement allows pay increases ranging anywhere from 9.5% to 12.5%. The bankers' association has so far refused to move from its offer of 9.5%. In previous pay agreements affecting 1.3 million workers in other sectors, the average increase was 11.34%. The unions representing the bank workers are demanding 12.5%.

The situation is complicated by political factors which have prompted some unions to take an unusually militant stand in the wage negotiations. The Communist-dominated Comisiones Obreras union recently lost its leading role in the labor movement to the Socialists and feels the need to reestablish a strong profile in the wake of the Socialist election victory. At the same time, a number of professional unions have recently been founded by physicians, pilots, and merchant marine officers, and the new organizations also want to establish their bargaining strength.

EURO COMPANY SCENE

A final decision by Ford on the establishment of a $1 billion automobile production plant in Portugal is not expected before the summer. A spokesman for Ford of Europe in London has been quoted as saying that the decision was postponed for six months in view of the stagnating auto market. The original announcement of the intent to build such a plant, with an annual capacity of 200,000 units, had been made in July 1982, and a final decision had been predicted for the end of last year.

Eaton Corp. of Cleveland, Ohio, and Germany's Jungheinrich group have agreed in principle that the latter will take over the distribution and servicing in Germany of Eaton's Yale forklifts as of July 1.

California-based Computerland plans to open 40 retail franchise outlets in Europe by the end of the year, at least ten of which will be in the U.K. The company currently has about 300 personal computer stores in the U.S. and 140 abroad.

Thermo Electron of Waltham, Mass., intends to take complete control of Britain's Peter Brotherhood, a machinery and power plant company based in Peterborough. Thermo has held a 7% stake in the U.K. firm since late 1980. The planned transaction would value Brotherhood at £610,000.

Common Market Reports

EUROMARKET NEWS

Issue No. 744 April 20, 1983

IN THIS ISSUE

Community: Objections to German Tax Reserve Legislation

Recent German tax legislation allowing small and medium-size enterprises to set aside a tax-exempt reserve when buying a bankrupt business is in jeopardy because of objections from the European Commission. The EC Executive takes the position that the reserve is tantamount to state aid and therefore violates Treaty Article 92 *(Common Market Reports, Pars. 2921, 2922)*. The Kohl administration hopes to refute the Commission's objections, but, in the meantime, application of the law has been stalled because the state governments have been told to withhold the necessary certificates requested by taxpayers wanting to take advantage of the measure.

Last December's legislative economic recovery program included a provision adding to the Income Tax Law a Section 6d that permits taxpayers with annual sales below DM 200 million to set aside on their tax balance sheet a nontaxable reserve representing 30% of the cost of purchasing a bankrupt company. There are several conditions attached to the formation of such a reserve, and one of them is prior permission from the government.

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Another condition is that the investment be sufficient to guarantee the continued existence of the bankrupt enterprise *(Doing Business in Europe, Par. 40,467, 40,470)*.

For its part, the Commission would not insist on the enforcement of the state aid rule if the DM 200 million limit were cut in half. Moreover, it would want to be informed about the amount of the reserve to be set aside for the purchase of a bankrupt business. If annual sales exceed the DM 100 million mark, the Commission says it has the power to either authorize or prohibit the formation of a nontaxable reserve for that purpose.

A large number of companies have signed takeover contracts with the management of bankrupt businesses in anticipation of the taking effect of Section 6d. German government lawyers have rejected the Commission's compromise formula, saying it would be better to permanently repeal Section 6d because there are only a few enterprises with annual sales below DM 100 million that would be in a position to acquire a bankrupt business.

Commercial Policy Proposal Comes Under Attack

A Commission proposal aimed at strengthening the Community's commercial policy toward third countries engaging in unfair trading practices has come under attack from trade organizations in several Member States. In February, the Commission proposed to the Council of Ministers a draft regulation that would enable the Community to retaliate against unfair trade practices far more effectively and on a broader scale than at present *(Common Market Reports, Par. 10,465)*. EEC countermeasures could include suspension of negotiated concessions, increased customs duties, and import quotas. The decision-making process would be shorter than the present procedure provided under Treaty Article 113 *(Common Market Reports, Pars. 3815, 3816)*, in particular with regard to GATT's procedure for settlement of trade disputes.

Under the proposal, the Commission would examine within 45 days complaints about allegedly unfair practices from Common Market-based enterprises, consult Member State governments, and prepare a report within five months. After further consultations with Member States, the Commission would make a decision within another five-month period. A State could then appeal to the Council, but a reversal of the Commission's decision would require a Council majority.

A large German trading organization and British and Dutch importers' associations have expressed misgivings about the proposal. A major argument is directed against the proposed broad definition of what would constitute unfair commercial practices. Considering the proposed definition in conjunction with the broad range of possible countermeasures, it could not be ruled out that the Community might resort to purely protectionist measures. Critics take particular exception to the proposed powers for the Commission, which could force third countries into export limitation agreements and minimum price commitments. Critics also object to the proposed shift in power from the Council to the Commission. Under present antidumping and subsidized import proceedings, the Commission may take only provisional measures, and the Council has the final say *(Common Market Reports, Par. 3821T)*. The proposed procedure would leave the Council merely with a right of opposition, which could be exercised only by majority vote.

In Brief...

The Council has adopted a directive requiring the Member States to amend their national rules by July 1, 1984, to allow trucks and buses to carry up to 200 liters of tax-free fuel in their tanks when crossing borders between Member States. For an estimated five million truck and bus drivers who pass these borders each year, the time-consuming fuel controls will end in mid-1984. These controls have been especially tedious at the German and Italian borders: the current tax-free fuel allowances for these countries are 50 and 100 liters, respectively + + + The European Court of Justice has ruled that the extension of national rules barring the sale of a certain type of beer to prohibit the import of beer lawfully produced and sold in another State is tantamount to a quantitative restriction prohibited by Treaty Article 30 (judgment of March 17, 1983, Case No. 94/82). The preliminary ruling was requested by a Dutch court in a criminal action against a Dutch importer who had violated the law by importing German beer *(Berliner Weisse)* that exceeds a specific acidity level. The ruling will make it even more difficult for the German government to defend itself against a Commission action alleging that the strict German beer standards (which bar importation of foreign beer containing additives, among other things) are contrary to Article 30. The beer standards, which date back to 1516, allow only four ingredients - hops, malt, yeast, and water.

Germany: Growing Case Backlog at High Tax Court

The German Supreme Tax Court says it is fighting a losing battle in trying to reduce its case backlog. Although the number of cases disposed of has risen annually since 1972, the number of new cases on the court's docket has gone up even faster. In its 1982 activity report, the country's highest tax court sees the legal protection of taxpayers in jeopardy if the backlog continues to grow. At the present time, individuals and businesses must wait two years for a ruling on an appeal against a lower tax court decision.

Around 4,000 cases are now pending before the high court, 700 more than at the end of 1980. This backlog can be attributed to the fact that taxpayers are increasingly inclined to challenge the tax offices' assessments in court. The lower tax courts have been able to cope with the work load because the number of judges has been doubled in the last ten years, but the Supreme Tax Court did not add any judges during that time.

The high court concedes that the relief measures speeding up proceedings before the lower tax courts and raising the thresholds for appeals have helped, but it considers the relief effects for the future to be minimal. The relief measure for the Supreme Tax Court (regarding appeals) expires at the end of 1984; the measure to speed up proceedings and thus relieve the lower tax courts expires at the end of this year, but a bill to extend it until the end of 1988 has been proposed *(Doing Business in Europe, Pars. 23,568, 23,569, 40,503)*.

The Supreme Court believes that only the appointment of more justices to the high court will provide the far-reaching and permanent relief that taxpayers and the government need. Because many of the 4,000 pending cases are test cases, the tax offices refrain from issuing assessment notices in similar situations, and the tax courts vacate enforcement of notices where they have been issued.

Britain: Committee Reports on Tax Collection Enforcement

The Committee on Enforcement Powers of the Revenue Departments, set up by the U.K. government in 1980, has now made wide-ranging recommendations concerning enforcement in the areas of income tax, corporation tax, capital gains tax, and value-added tax. The five-man Committee was established in the wake of parliamentary and judicial criticism of the investigative methods employed by certain tax officials as well as concern over the growth of tax evasion in the "black economy." New legislation would be needed to bring about the recommended fiscal changes.

The report (Cmnd. 8822) stresses that enforcement powers are necessary "not only to coerce the dishonest and the neglectful but to encourage the honest and conscientious." It says that the operating mechanisms of the Board of Inland Revenue are "in many respects, antediluvian and quite unsuited to modern conditions." Various improvements are proposed to ensure that both individuals and companies pay the requisite amount of tax.

Effective criminal sanctions should be available to check deliberate and serious frauds, but routine regulatory mechanisms in the tax field should not rely on such sanctions but on automatic civil surcharges and penalties, which would be more appropriate. In any case, all enforcement procedures should ultimately be subject to judicial control, the report says.

The Committee, under the chairmanship of Lord Keith, finds that the broad investigative approach of Inland Revenue inspectors is "reasonable and appropriate," despite some recent controversy. However, it believes that much more should be done to describe the nature of the approach to taxpayers. "Substantially enhanced safeguards" for the public are recommended regarding the tax authorities' powers to search premises for evidence of fraud.

New penalties are proposed for default in tax matters. Simple negligence would cease to carry a penalty, and tax paid late, through either oversight or negligent error, would merely attract an interest charge.

Two new types of tax offense would be created - gross negligence and civil fraud. In a case of gross negligence, defined in terms of the amount undeclared in relation to the actual amount included in the tax return, the lost tax would have to be paid, together with interest and a penalty of 30% of the undeclared tax, which could not be mitigated. In a case of civil fraud, again the lost tax plus interest would be payable as well as a stiffer penalty of 100% of the undeclared tax, although the penalty could be reduced by up to 50% if the defaulter cooperated in the investigation. The names of defaulters who incurred penalties for civil fraud would be published unless they made a full, voluntary disclosure. The maximum penalty for the most serious cases of tax evasion will probably be a seven-year prison term, according to the report.

Greece: Introduction of Five-Day, 40-Hour Workweek

The Greek industrial federation and the country's labor unions have signed an agreement generally introducing into industry the five-day workweek, which so far has been implemented in only a few cases. At the same time, both sides have agreed to a 40-hour week for the entire private sector, though with certain exceptions. The effective date is April 1.

The consensus had been encouraged by the Socialist government, which also offered several other concessions to the unions in order to reduce the number of strikes protesting Athens's restrictive incomes policy. In addition to the work time reductions, the government said it would encourage:

- the formation of worker committees in enterprises and the committees' guaranteed right to participate in decision making at company level;
- the prohibition of mass dismissals in excess of 2% of a company's work force if the work force totals more than 50, and an upper limit of 30 dismissals in any month; and
- improvements in severance terms for dismissed workers.

In other news, the government has submitted a bill that, among other things, would reduce the period of time during which the authorities must decide on the approval or disapproval of a new investment project. Also, the power of approval would be centralized in the Economics Ministry.

Netherlands: Postponement of Public Sector Pay Cut

Strong lobbying by the Dutch civil servants' union has caused Interior Minister Rietkerk to mount a one-man opposition in the Dutch cabinet to planned pay cuts for government employees, forcing the administration to abandon the proposal, at least for the time being. The 2% pay reduction, from July 1, was to have been compensated for by a 2.5% cut in working hours, with the aim of creating additional jobs in the civil service. (National unemployment currently stands at 17.2%.) It was not immediately known whether the plan to reduce working hours has also been dropped.

Public service representatives point out that employees have already suffered income losses of up to 5% this year as a result of the suspension of pay indexation and are unwilling to make further sacrifices. It remains open whether the government will attempt to reintroduce the measure in January 1984. The Hague had hoped for 2 billion guilders in budgetary savings from the move.

In related news, management and trade unions in the Dutch printing, metal, and heavy engineering industries have agreed on a novel plan to combine reduced working hours with a pay freeze. In the printing industry, 60,000 workers accepted a reduction in the workweek from 40 to 38 hours next year and to 36 hours in 1986. They hope to save 2,500 threatened jobs and create another 2,500 by 1986. In the metal and engineering sectors, some 25,000 employees also agreed to a weekly work time reduction from 40 to 38 hours by January 1985 and to a pay freeze lasting until the end of next year.

Denmark: Marked Improvement in Economic Prospects

Mainly external developments have brought about a marked improvement in Denmark's economic prospects during the last six months in what observers consider an unusual run of good luck for the coalition government of Poul Schlüter, which has been in power for only half a year.

Back in January, the government anticipated zero growth for the economy this year, but Economics Minister Anders Andersen has now revised this figure to a 1.5% increase in GNP. Also, Andersen predicts that inflation will fall to 5.7% this year, compared with 1982's 10% rate.

The major factors responsible for the shift are reduced interest rates and the fall in world oil prices, which, combined with a mild winter, helped to cut the Danish current account deficit from DKr 20 billion in 1982 to an expected DKr 14.5 billion this year. The EMS realignment of currency parities allowed the central bank to bring its discount rate down from 10% to 8.5%, and most commercial banks quickly reacted by cutting their lending rates by two full percentage points. Bond prices have improved considerably, with yields declining from 22% last fall to 15% at present. Share prices have gone up by an average of about 30% since the beginning of the year.

Despite the new optimism, a gloomier side of the economic picture remains. No improvement is expected in the labor market, where 11-12% are expected to be out of work by the end of 1983, despite the creation of 10,000 new jobs, mainly in the public sector. At the same time, the foreign debt remains an alarming burden, totaling DKr 155 billion (one-third of GNP) at the end of last year. Annual interest payments of DKr 18 billion will require constant new borrowing and have prompted central bank governor Erik Hoffmeyer to warn against exaggerated optimism. Nevertheless, falling interest rates have permitted a reduction in the planned 1983 budget deficit from DKr 69 billion to 56 billion.

France: Parliament Approves Austerity Measures; Timetable

The French National Assembly on April 11 authorized the government to implement the major components of its latest economic austerity package by way of decree law. The Communists, junior partners in the cabinet, dropped their previous threat to abstain in the voting after the government agreed to a few slight changes in the program. Needy individuals and families, for instance, will be partly or wholly exempted from paying the social insurance levy of 1% of taxable annual income; those who owe less than FF 270 in taxes will not have to pay the levy. Similar provisions apply to the 10% special surcharge on 1981 income tax paid in 1982: exemptions will benefit those who suffered severe income reductions last year - for instance, as a result of retirement, unemployment, or disability.

The updated timetable for implementation of the main measures now is as follows:

April 13.--Introduction of the fluctuating tax on oil products, designed to keep retail prices at current levels despite lower production and import costs.

May 2.--Start of the foreign exchange restrictions for residents who plan to spend vacations abroad.

May 15.--Effective date for the 1% levy to help finance the deficit of the social insurance system.

In June.--Payment due of the obligatory 10% surcharge on income taxes paid last year for 1981.

July 1.--Tobacco tax goes up by 25%.

To enforce the foreign exchange controls for tourists, the government will issue currency "passports" as of May 2. In cases where vacation trips are booked with official French travel operators, only FF 1,250 will be applied toward the annual FF 2,000 foreign currency limit for half-board arrangements and FF 1,750 for full-board arrangements, regardless of the actual cost of the package. No currency limits apply to travel to Monaco and the 13 "franc zone" countries.

In addition, the government has suspended regulations dating from August 1973 which allowed French residents an unlimited number of foreign money transfers of up to FF 3,000. From now on, only one transfer of up to FF 1,000 per quarter is authorized, and every transfer will be entered in the currency passport. The transfers may not be used to build up foreign exchange deposits abroad or to finance tourist travel.

Italy: Corporations Forced to Delay Annual Reports

Delays in the parliamentary passage of a bill that would introduce inflation accounting are forcing Italian corporations to postpone the release of their 1982 annual reports. The bill has been cleared by only the lower house and is now held up in the senate. It is generally assumed that both houses will soon agree on a compromise version. If not, business results generally would be negatively influenced by the high inflation rates of the past years, and so would corporate tax bills.

Italian law requires corporations to issue their annual statements within four months of the previous business year. This deadline is now expected to be extended for another two months, so that reports could be released in June, provided Parliament acts very soon.

The draft legislation was originally worked out for the year 1975 by Bruno Visentini, then finance minister, and bears his name. However, it has been modified since then in several respects. Among other things, there will be safeguards against ailing enterprises revaluating any unproductive capital investments and thereby hiding their true financial situation.

Rome Cuts Discount Rate to 17%; Prime Rate at 19.5%

The Italian central bank on April 8 lowered its discount rate from 18% to 17%. The new rate remains the highest of any western industrialized country and compares with a current inflation rate in Italy of about 16%. This latest move of the central bank was made easier by the relative strength of the lira in recent weeks.

Business spokesmen welcomed the decision but made it clear that they would continue to press the commercial banks for a further lowering of the prime rate, which a week earlier had been cut by one-half point, to 19.5%.

Common Market Reports

EUROMARKET NEWS

Issue No. 745 *Report No. 473, April 27, 1983*

IN THIS ISSUE

Community: Developing Countries Assured of Continued Aid

The European Commission is seeking to allay fears among developing countries that Community aid to these countries could become conditional on the EEC's influencing their internal affairs. Explaining the Commission's broad policy outlines for the EEC's future development aid and food aid, Commissioner Edgard Pisani said that aid to the developing countries would continue, provided these countries can agree with the EEC on joint development strategies in the near future.

A Commission memorandum of last October on the Community's development policy, which outlined the principles and guidelines for the coming decade, was well received by the Council of Ministers. The Commission has now presented the details. Agricultural development and food self-sufficiency are the main elements of the Community's policy toward third countries, especially those 63 African, Caribbean, and Pacific countries that are linked to the EEC by the second Lomé Convention *(Common Market Reports, Par. 10,284)*. Lomé II, which took effect on Jan. 1, 1981, provides duty-free access to the Common Market for 99.5% of the ACP countries' products. Lomé II also broadens the range

This issue is in two parts. This is Part I.

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of products that qualify for support through Stabex, the export earnings stabilization system introduced under Lomé I to help ACP countries partially offset losses in export earnings whenever world market prices drop drastically. Some 5.5 billion ECUs have been made available in economic aid under Lomé II.

Although the EEC Member States are not yet questioning the continuation of development aid, there is a general insistence among them that aid funds should be spent for better purposes and do more to help the poorest countries. (The ACP group includes 22 of the world's 31 least-developed countries.) To this end, the Community would establish a list of priorities of its own and suggest development operations to its prospective partners among the ACP countries. All instruments and operations will have to be coordinated to avoid inconsistencies and wastefulness, according to the Commission.

Several Member States have criticized the current conception and practice of food aid, which is not provided for under Lomé II but nevertheless goes to a number of ACP nations. The European Parliament has called for a complete reform. In the view of the EC Executive, food aid should be integrated with other development programs; the individual Member State operations should be coordinated with those of the Community. In 1982, the Community's food aid program totaled 700 million ECUs and thus represented a quarter of the EEC's overall development aid.

Steel Quotas Eased, But Long-Term Policy Still Valid

The Commission has slightly raised steel production quotas for the second quarter of 1983. EEC output for the first three months of this year was around 26 million tons, and the marginal increase in quotas for the current three-month period, ending on June 30, implies a 26.5 million ton output. Still, even the slightly higher quotas allowed for nine steel product categories, ranging from hot rolled coils to heavy sections, fall well short of the production levels allowed and attained last year (31 million tons in the fourth quarter of '82). A slight upturn in construction in most Member States and in the restocking of steel inventories, especially by capital goods manufacturers and automobile makers, persuaded the Commission to allow a small increase in production.

The temporary easing of steel output ceilings is not at odds with the Commission's long-range projections. In a recent document on steel policy objectives, the Commission urges steelmakers to cut output by 30-35 million tons by 1985 in order to return the European steel industry to profitability. It suggests that the goal be attained by closing down the oldest, least efficient, and most heavily subsidized steel mills. Strict adherence to this concept would affect most Belgian and Italian mills, many British producers, and a few French steelmakers, and would mean mass layoffs. Therefore, the Commission is calling for solidarity, which means that the more efficient German, Dutch, and Luxembourg steel producers would also be forced to make further production cutbacks.

Important decisions governing the future of Western Europe's steel mills will be taken in the coming months. An extension of the crisis management system, which expires on June 30, presents the least of the difficulties. Based on Article 58 of the Coal and Steel Treaty, this system empowers the Commission to impose production quotas, fine violators, and set minimum prices. Problems could arise when the Commission scrutinizes aid proposals submitted by the Member State governments. Some States have been slow to file their proposals. A case in point is Germany, where steel industry managers are said to be dragging their feet in acting on suggestions for corporate reorganization made by three independent experts late last year.

<u>In Brief...</u>

The Commission has followed up on the European Court of Justice's decision on butter boats (judgment of July 7, 1981, Case No. 158/80). Under a draft directive, the Member States would retain the freedom to authorize <u>duty-free shops</u> at airports and harbors for sales to intra-Community travelers, but the value and quantities of purchases would be subject to the limits applied to travelers coming from third countries. For those traveling to third countries, the Member States would be entirely free to lay down conditions for duty-free sales + + + Around $6.5 billion will be spent by the Community over the next six years to promote investments in the <u>Mediterranean regions</u> of France, Italy, and Greece. If the Commission plans receive the expected approval of the Council, the money would go toward projects in the traditionally poor hinterlands that usually do not benefit from tourism. The EEC would offer varying financial assistance to improve farming (including reforestation), to establish small businesses, and generally to improve the infrastructure. Italy would receive 45% of the total, Greece 38%, and France 17% + + + The April 13 decision of Germany's Federal Constitutional Court postponing indefinitely the <u>national census</u> scheduled for April 27 has a European dimension. The 1982 Census Act, approved unanimously by the German parliament and now suspended, was enacted because a 1973 EEC Council directive required the Member States to conduct a national population census between March 1 and May 31, 1981. Germany failed to take the necessary legislative measures on time because the federal and state governments could not agree on the sharing of the estimated DM 370 million cost. Germany has already obtained one extension of the deadline (Official Journal, No. L 385, page 33) and now must seek another. There has been mounting opposition in Germany to the proposed census because of the possibility of civil rights violations.

Germany: Growing Business Confidence in Economy

Confidence among German industrialists about the prospects for an economic recovery has been rising ever since the Christian Democrats took the reins of government from the Social Democrats last October. The growing positive attitude is based primarily on the increase in new orders received by manufacturers. Other contributing factors are moderate wage settlements in key industries, low inflation, and falling oil prices.

Few German businessmen disagree with the government's intentions and steps taken to trim federal spending, especially in the social security sector, because they concur with Bonn that only cuts in public spending and borrowing will create the environment necessary for a lasting economic recovery. However, there is much skepticism about the government's hopes of cutting annual borrowing to DM 10 billion by 1986. The problem here, businessmen feel, is that no one knows where the needed public funds will come from, since tax increases are ruled out for the current legislative session. There are doubts that Bonn will be able to keep increases in civil servants' pay substantially below the pay increases of employees in industry or be able to reduce or eliminate some of the generous fringe benefits enjoyed by civil servants.

Independent economists have suggested cutbacks in federal subsidies granted in many sectors, including rent subsidies and aid to many industries, such as shipyards. These subsidies burden the federal budget by an estimated DM 50-80 billion.

Many economists believe that falling interest rates have done more to increase economic activity than any of the measures taken by the Kohl administration. This is especially true, they say, for the construction of private homes, which has shown a noticeable upturn; the increase in the number of building permits applied for and issued since last December is attributed to the Bundesbank's continued lowering of the prime rate since mid-1982 rather than to the DM 700 million government program enacted last December to help finance the interest cost of mortgages.

Britain: Changes for U.K.-Controlled Foreign Companies

The newly published U.K. Finance Bill, which sets forth the government's earlier Budget proposals, contains draft measures with regard to U.K.-controlled foreign companies. The bill reflects the same proposals that were made late last year in the Inland Revenue discussion paper "Taxation of International Business." However, the Revenue, in a release just issued, has indicated that "important modifications" are to be incorporated at a later stage, in light of comments received from interested parties. The measures are to take effect in April 1984.

The most significant change is that the tax charge would be based on an apportionment of profits rather than on the fiscal concept of notional (fictitious) U.K. tax. The profits to be apportioned would be the controlled foreign company's profits, as measured for U.K. tax purposes, and they would be "the subject of a separate charge to corporation tax" on U.K. resident firms. However, the tax credit method would be retained in order to prevent a double charge to tax when a dividend is paid by the controlled company out of profits subject to an apportionment.

No fiscal charge would arise if the apportionable profits of such a company for a 12-month accounting period did not exceed Ł20,000. This monetary provision is regarded by observers as a worthwhile concession. If the accounting period is less than 12 months, the limit would be reduced proportionally. Moreover, losses made by the controlled company during the previous six years could be taken into consideration, and relief could be allowed.

The tax authorities are aware of the complexities of the proposed measures, and a technical unit at the Inland Revenue's head office will be available to provide advice on complex points in the interpretation of the legislation and on the application of these provisions to existing and proposed group structures. Guidance would also be available on the treatment of other group subsidiaries when a U.K. company has been subject to an Inland Revenue direction (directive) with regard to its overseas subsidiaries. Advance clearance could be provided when shares in a controlled foreign company are sold.

Netherlands: 2 Billion Guilders in Cutbacks Announced

In a supplemental austerity budget submitted to Parliament, the Dutch coalition government has officially announced a 2% cutback in all social welfare services as of Oct. 1. At the same time, it plans to reduce the wages and salaries of civil servants and public sector employees by the same percentage. (As compensation, the government is offering a slight reduction in work time, by about one hour a week.) Cutbacks are also planned for public subsidies of housing rents, while motorists can expect a sharp rise in gasoline excise tax.

The Christian Democratic-Liberal coalition administration of Premier Ruud Lubbers justifies the budget cuts by arguing that the economic recession will leave the government with 3.5 billion guilders less in revenue than originally projected in the budget. The new measures are designed to prevent the public finance deficit from rising from 11.9% to 13% of GNP. The income from natural gas sales alone is expected to fall by a total of 1.75 billion guilders. As recently as 1979, The Hague earned 53 billion guilders from its gas sales to other European countries. For the current year, the estimates have been reduced to 28.5 billion, but even this target cannot be met.

The additional spending cutbacks of about 2 billion guilders in the supplemental budget involve the aforementioned reductions in social transfers (225 million guilders), scaled down ministerial budgets (865 million), the reclaiming of social insurance subsidies (280 million), higher disability insurance contributions (100 million), and a 10-cent increase in the gasoline excise tax (225 million). In addition, the government expects to save the 300 million guilders in tax revenues it would have lost through proposed reductions in workers' vacation pay, which have now been cancelled.

Even though the total savings decided for 1983 now exceed 15 billion guilders, the budget deficit will still increase from 11.9% to 12.5% of national income.

Belgium: Central Bank Continues Rate Reductions

The Belgian National Bank on April 14 lowered the discount and Lombard rates by another percentage point each, to 10% and 11%, respectively, after having reduced both rates by a record three points on March 23. The decision was taken because there has been a further easing of conditions on the money market; also, the decision will facilitate the reduction of short-term credit rates. The strengthened position of the Belgian franc had allowed the bank in the first two weeks of the month to purchase foreign exchange in the equivalent of BF 12 billion. During the same period, Belgium was able to reduce from BF 79 billion to BF 59 billion its liabilities to the European Fund for Monetary Cooperation, which had sharply risen prior to the European Monetary System realignment on March 21.

France: OECD Suggestions Overtaken by Latest Events

In its annual survey of the French economy, completed just before the government announced its recent package of austerity measures, the OECD Secretariat predicts that France will attain a 0.5% growth rate in the current year and that inflation will fall to 8.7%, from 10.9% last year. Most observers believe, however, that the overall effect of the latest economic measures will be to prevent growth altogether and severely retard efforts to reduce inflation, since many of the changes involve higher public service tariffs. The increase in the number of jobless predicted by the OECD is also likely to be much greater, as has been acknowledged by the government.

The main aim of the government is to curtail the threatened increase in the French payments balance deficit. The OECD claims that the trade deficit will indeed decline by $2.5 billion as a result of improved world trade conditions and by another $3 billion because of fuel import savings. Last year the trade deficit totaled $12.8 billion. In its commentary, the

OECD expresses some concern over the threat of a future expanding foreign debt and cautiously suggests some further austerity measures. These measures, on a much greater scale than envisioned by the OECD, are now being implemented.

Denmark: Foreign Exchange Controls to Fall on May 1

The Danish government has announced a sweeping liberalization of the country's stringent foreign exchange controls with effect from May 1. After a four-year "freeze," nonresidents may again purchase Danish state bonds with remaining maturities of at least five years. (The government had stopped such purchases on Feb. 6, 1979, in order to stem the huge demand. In 1978, purchases had totaled 3.1 billion kroner, and in the first few weeks of 1979, until the ban was enforced, the volume of purchases came to 1.8 billion kroner.) The limit on investments in Denmark by foreign companies will be allowed to rise from 2 million to 5 million kroner annually, an Industry Ministry official said. Domestic businesses will again be able to raise substantial loans abroad; the limit will rise from 500,000 kroner annually to 2 million kroner, and foreign investments will no longer have to be confined to capital investments only.

The easing of the foreign exchange curbs has been interpreted as a signal by the Conservative-led administration to promote a further reduction in interest rate levels and encourage domestic investment. Financial observers are now predicting another steep rise in foreign demand for Danish state bonds, which currently have effective yields of 13-14%, compared with over 20% last summer and fall. Commentators practically discount the currency risk because the new administration under Premier Poul Schlüter, which came to power last September, is strongly committed to the defense of the krone. For instance, Copenhagen refused a krone adjustment after neighboring Sweden devalued its currency by 16% last October, and the krone was even revalued by 2.5% as part of the European Monetary System realignment last month.

Ireland: Worker Protests Against Inequitable Taxation

An estimated 100,000 Irish workers staged a nationwide protest on April 13 against increases in income tax and social security contributions. Organized by the trade unions, the demonstrations forced the closure of many businesses, industrial plants and schools, and affected public transport all over the country.

The tax and contribution increases had been announced in the February budget submitted by the coalition government of Garret FitzGerald. The Irish Congress of Trade Unions, which sanctioned the demonstrations, has presented the administration with its demands for a tax reform, including the more equitable taxation of workers. The ICTU urges a crackdown on tax evasion and a fair sharing of the tax burden by farmers and the self-employed, who are contributing only a small portion of tax revenues. (Between 1976 and 1982, the share of tax revenue from income tax withholding rose from 77% to 87%, while the farmers' share went from only 1.4% to only 1.7%. The share of tax revenues contributed by the self-employed actually dropped from 21.6% to 11.3% during that period.)

The government has acknowledged that a reform of the country's tax system is necessary, but it would like to implement it in gradual steps, in conjunction with the more urgent rehabilitation of the state budget. Finance Minister Alan Dukes said that the finance bill, which implements the budget provisions, will contain measures against tax evasion.

Spain: Indictment Action Against Rumasa's Ex-Owner

Spain's Socialist government has begun indictment proceedings against José Maria Ruiz-Mateos, the former owner of the giant Rumasa conglomerate, on charges of monetary and commercial fraud. The complex network of Rumasa companies was expropriated on Feb. 23 under constitutional provisions permitting such action for reasons of economic emergency. At the time, government officials suggested that Rumasa was not only in severe financial trouble but also the center of major financial wrongdoings.

In early April, three very large caches of Rumasa documents were discovered by investigators. The documents are reported to contain evidence of fraud as well as of $11 million in donations to Opus Dei, the semi-secret Catholic lay organization, to which Ruiz-Mateos has always denied having any connection. The files will presumably be used to buttress the government's case for the arrest and prosecution of Ruiz-Mateos. To review the evidence and hear testimony from the defendant and others accused with him, pre-trial hearings will be held. At present Ruiz-Mateos is staying in London, where he is reportedly attempting to salvage some foreign parts of his empire while organizing his defense.

Prior to the discovery of the secret document caches, Ruiz-Mateos had initiated court proceedings to contest the expropriation and asked for an attachment order until the true ownership of the properties could be ascertained. However, a Madrid court refused to admit the suit.

Common Market Reports

EUROMARKET NEWS

Issue No. 746 *May 3, 1983*

IN THIS ISSUE

Community: Adoption of Group Accounting Directive Near?

The chances for adoption of the seventh EEC draft directive on consolidated accounts have been improving in recent weeks. Germany, currently holding the presidency of the EEC Council of Ministers, has been moving the discussions forward since the beginning of this year. The experts have spent a total of 20 days deliberating the measures, and a number of problems have been solved. Should the remaining issues also be settled in the next few weeks, the directive could be adopted when the Member States' finance and economics ministers meet again on May 16. Adoption would represent an important step toward coordinating national company law and would involve significant changes in the accounting laws of most Member States *(Common Market Reports, Pars. 1350.51, 1407)*.

When the Commission submitted the proposal in 1976, Commission lawyers were optimistic that the measure would be adopted as it was presented and in good time. As it has turned out, the key articles of the latest draft (6 to 11) hardly resemble the Commission's original version. One change concerns the Member

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States' authority to exempt certain companies from consolidated accounting. Under the Commission's original proposal, exemption could have been granted to companies satisfying any two of three criteria: (a) a balance sheet total of less than 4 million EUAs, (b) consolidated sales of less than 8 million EUAs, and (c) an average work force of not more than 250. The compromise now provides for an exemption if two of the following three conditions are met: a balance sheet total of less than 2.5 million EUAs, consolidated turnover of less than 5 million EUAs, and fewer than 500 employees. *(Common Market Reports, Pars. 1392B, 1407L.)*

The remaining issues that have to be settled include Luxembourg's demands for the exemption of financial holding companies. Luxembourg fears that it would lose out if these companies are not exempted since its liberal company and tax legislation has greatly contributed to the establishment and activities of such holdings *(Doing Business in Europe, Pars. 26,171, 26,173)*. Another problem concerns the exemption from consolidated accounting of certain parent companies that are wholly or partially owned by another company (so-called sub-groups). The British oppose this exemption because the presentation of consolidated accounts by sub-groups is required under U.K. law. Acceptance of the proposed version of Article 6A would actually reduce the volume of information now available to shareholders and investors in Britain *(Common Market Reports, Par. 1407F-1)*.

Seveso Waste Scandal Points to Need for Controls

The current European scandal over the unknown whereabouts of 41 barrels of highly poisonous dioxin waste from the 1976 Seveso pollution disaster would not have occurred if a proposed Community measure had been in force, Commission lawyers say. As it is, there are no statutory controls on the transport of wastes between the Member States. The scandal developed after part of the Seveso toxic waste was shipped out of Italy, and when Hoffmann-La Roche (the Swiss parent of the Seveso company that produced the dioxin) and the firms involved in shipping the waste failed to reveal the final disposal site of the barrels. So far the Italian, French, and German authorities have been unable to locate the barrels.

Last January the European Commission submitted a Council draft directive on the supervision and control of interstate shipments of hazardous wastes within the Community (Official Journal No. C53, Feb. 25, 1983, page 3). The measure, now pending before the European Parliament and the Economic and Social Committee, would obligate the Member States to pass laws requiring any business engaged in the interstate transport of hazardous wastes to have a license and to notify the authorities of the completion of a shipment. The waste disposal facility, too, would have to inform the authorities that waste was received and safely disposed of.

The Commission had seen the need for Community legislation long before the current scandal. Interstate shipments of hazardous wastes and the concomitant risks of uncontrolled movements have been increasing due to the absence of adequate national treatment and disposal facilities. A 1978 Council directive on the treatment, storage, and disposal of toxic waste obligates the Member States to ensure that toxic industrial waste is disposed of without danger to human health and the environment. This directive has been complied with by all of the Member States except Greece and has been in effect since March 1980 *(Common Market Reports, Par. 3315.41)*. However, Commission lawyers point out that the Community's role is confined to that of the lawmaker, while implementation of EEC rules and administrative controls and supervision are up to the individual States. The pending directive would eliminate some of the differences that still exist in the administration of the rules.

There are also differences among the Member States over the scope of the pending proposal, and the latest developments have intensified these differences. Several Member States, including Germany, want an extension of the authorities' controls: a business would need not only a general license but also a special license for importing and exporting industrial waste in each instance.

In Brief...

The Commission has given the British and French governments until May 16 to either justify the special investment assistance they are offering two U.S. companies or face a veto of their plans. London is offering a £10-million training grant to Hyster, the forklift maker, to help concentrate production at Irvine, Scotland. Paris has promised an FF 34.5 million grant to Timex, the watchmaker, which intends to increase production of quartz watches in Besançon at the expense of the Timex plant in Dundee, Scotland. The EC Executive suspects that both governments are offering state aid in violation of EEC rules *(Common Market Reports, Pars. 2921, 2931)* + + + Commissioner Frans Andriessen has blocked, for the time being, adoption by the full Commission of a new proposal for a fifth company law directive. The revised measure would introduce a system of worker participation in companies and, in contrast to the original 1972 draft which foresaw a mandatory two-board system and supervisory boards for all companies, would enable companies to retain either a single board system or a two-tier arrangement *(Common Market Reports, Pars. 1350.25, 1401)*. Andriessen, the Dutch Commissioner responsible for EEC competition policy, said that, by his refusal, he attempted to present the views of two Anglo-Dutch multinationals, Unilever and Royal Dutch Shell. Both companies are reportedly concerned because the revised proposal would not exempt groups from its scope of application, as the European Parliament requested in May 1982. The Commission disagreed with the EP on this point, believing that acceptance of Parliament's suggestion would deprive the measure of its practical significance.

Germany: Net Worth Tax Relief Sought by Businesses

The major German business organizations have reconciled their differences over ways of lowering the net worth tax. Their representatives have told Finance Minister Gerhard Stoltenberg that a 50% reduction in the assessed values of business property applied in computing the net worth tax of businesses would be the best way for the government to fulfill its promise of business tax relief. The loss of revenue would be more than made up by the increase in the value-added tax rate from 13% to 14% as of July 1 *(Doing Business in Europe, Pars. 40,467, 40,470)*.

Acceding to the request for a 50% reduction would have several consequences for both the taxpayer and the government. Such a reduction would not only lower a business taxpayer's net worth tax but also relieve him of a portion of the business tax. Any heirs would benefit from the same relief in paying estate tax. The government is concerned about whether lowering the net worth tax by halving the assessed values of business property can be reconciled with the constitutional principle of equal treatment in relation to other property, such as real estate.

A test case involving the constitutionality of the low uniform assessed values of real property is pending before the Federal Constitutional Court. Finance Ministry officials are waiting for the judgment before deciding on the proposal to reduce the assessed values of business property.

There had been major differences among the business organizations over what each considered to be the best way to bring about net worth tax relief. One association suggested that companies be relieved of the double net worth tax burden. (A company pays 0.7% on its net worth, and shareholders pay net worth tax on the value of their shares - *Doing Business in Europe, Par. 23,361B.)* Another wanted restoration of the legal situation that existed until 1974: companies were then entitled to deduct the net worth tax in computing income for purposes of the corporate income tax. Still another organization favored reduction of the current 0.7% rate payable by corporate taxpayers.

Italy: Socialists Quit Government; Elections in June?

The central committee of Italy's Socialist Party on April 22 supported a motion by party chairman Bruno Craxi to withdraw the party's support from the five-month-old government, which Craxi said had "exhausted its functions." The move was expected to lead to the resignation of the four-party coalition administration of Amintore Fanfani, which also includes the Christian Democrats, the Social Democrats, and the Liberals. Political observers said Craxi's motive for leaving the government was the expectation that the Socialists stand to gain from early elections, which probably would be held together with the regional elections on June 26. The regular time for general elections is next year. Because the law specifies a pre-election period of at least 49 days, Parliament would have to be dissolved by May 11 if the elections are to take place on June 26.

Some Progress in Rome on Legislative Reform Project

Efforts toward long-sought legislative and institutional reforms in Italy took a step forward last month, when both houses of Parliament agreed to appoint a joint commission made up of 20 deputies and 20 senators. Within ten months, the commission is to work out concrete reform proposals, which would also take into consideration bills already pending in Parliament. The fact that the project is supported by the Communist Party as well could make it possible to obtain the necessary parliamentary majorities when the time comes.

A major legislative reform proposal involves Parliament itself, the number of its members, and more clearly defined roles for the Chamber of Deputies and the Senate. The Italian legislature is represented by no less than 950 parliamentarians, whereas the corresponding numbers are 537 for West Germany, 761 for France, and 635 for Britain. Also, the Italian lower and upper houses have nearly the same functions, which frequently results in a time-consuming, inefficient dualism of parliamentary activities.

The structure of the central government is another weak point in Italy's legislative system, tending to subject the Executive to undue pressures from the political parties and from Parliament. There are those who favor the introduction of a constructive no-confidence vote, patterned on the West German model, which would not allow Parliament to remove a prime minister and his cabinet unless there is a majority for a successor. Such a revised procedure would tend to prevent weeks, or even months, of government crises during which the country has to be administered by caretaker governments, as has so often happened in the past. The commission will also have to consider strengthening the decision-making and coordinating powers of the prime minister, whose rights and duties as head of government at present lack a clear definition.

The overhaul of Italy's system of public administration is another task facing the reformers, as is a reorganization of the judicial system (for instance, by imposing some controls on the virtual autonomy of local prosecutors). Further reform proposals include a revision of the strike law.

Six Italian Banks Ordered to Close Luxembourg Holding Companies

The Italian central bank last month ordered six domestic banks to close down their Luxembourg holding companies by the end of the year. The order is the bank's reaction to the events surrounding the bankruptcy last year of Banco Ambrosiano and its Luxembourg holding. The measure seeks to limit the foreign maneuverability of those Italian banks that operate holdings abroad mainly for tax purposes; the central bank order does not prohibit direct participations.

The Banca d'Italia has also ordered the dissolution of Italian bank branches and affiliates in overseas tax havens where, in the bank's opinion, the local authorities do not exercise sufficient controls over banking activities (for instance, Nassau/Bahamas or the Channel Islands). A total of 17 holdings and affiliates operated by the six banks are affected.

Nerio Nesi, president of Banca Nazionale del Lavoro, the country's leading bank, said the central bank order will damage the international competitiveness of the major Italian banks.

Britain: CBI Chief Optimistic about Economic Prospects

Echoing growing optimism about the U.K.'s economic prospects, the Confederation of British Industry believes that the British economy as a whole will show a higher growth rate than Treasury officials, and even its own experts, have been predicting in recent months. The CBI's director-general, Sir Terence Beckett, is predicting a growth in domestic manufacturing output of 3.5% over the next 12 months - more than double the Budget figure of 1.5% and considerably higher than the previous CBI forecast of 2.25%. The latest projection is based on a survey of industrial trends in 1,800 member companies, the majority of which foresee a definite increase in output.

Beckett said that optimism had been on the rise since last August, buoyed by increasing consumer demand, lower interest rates and borrowing costs, and the fact that incomes are going up at a quicker rate than prices. Also, British industry is more competitive in international markets because of sterling's lower exchange rate. However, Beckett thought that these improvements will not reduce unemployment in the next few months but only stabilize it.

The major U.K. clearing banks have reduced their base lending rates by 0.5% to 10%, and Beckett welcomed this further cut in interest rates. He said it will lower costs for businesses by £135 million a year on current borrowings. However, "we want further cuts to boost the recovery that is just beginning," he said.

According to figures issued by the CBI, pay deals in manufacturing industry averaged 5.6% in the first three months of 1983, some 2% lower than the same period last year, and the underlying 7.75% rise in average earnings in the 12 months to February is the lowest in more than five years.

The Department of Employment has announced that the annual rate of inflation in the year up to March 1983 rose by only 4.6%, down from the 5.3% figure for the 12 months to February and less than half the 10.4% for the equivalent period to March 1982. This represents the smallest increase in the past 15 years, which has fueled speculation that Prime Minister Margaret Thatcher will announce shortly that general elections are to be held in June.

France: Strong Dollar Threatens Austerity Program's Success

Despite the rejection by the opposition-dominated Senate of the bills covering the main items of the French government's economic austerity program, the Socialist and Communist majority in the National Assembly assures that the legislation will be passed in time to be implemented in May, as planned. A more serious problem for the government, in connection with the latest measures, has proved to be the continuing appreciation of the U.S. dollar. It reached a record FF 7.36 on foreign exchange markets in mid-April, which represents a 7% revaluation since the franc's latest devaluation within the European Monetary System and a 12% rise over the average level of 1982. The austerity program was designed on the basis of a (then conservative) FF 7.10 rate. The dollar has now not only matched the deutschmark revaluation against the franc but gone far beyond it.

As a result, Finance Minister Jacques Delors has warned that the government may have to reappraise its program. The effect of the dollar appreciation on the balance of payments may alone be sufficient to eliminate most of the projected benefits: 40% of French imports are invoiced in dollars, so that a 10% rise in the dollar rate over its 1982 level would raise France's import bill by $25 billion, equal to the hoped-for saving from the austerity measures. To add to the problem, the April figure for inflation is expected to show a full 1% increase in the cost of living, due mainly to public-sector tariff increases, and there is now little hope of reaching the 8% annual rate projected in the plan. The dilemma facing the government is that any further austerity measures may put public acceptance of the program in jeopardy.

In related news, Delors told newsmen during a state visit to Switzerland by President François Mitterrand that the currency restrictions recently imposed on French tourists will be lifted at the end of the year. Several countries, particularly Austria and Switzerland, have protested the measures as being severely damaging to their travel industries.

Austria: Socialists Lose Absolute Majority; Kreisky Resigns

A political era has come to an end in Austria with the resignation of Chancellor Bruno Kreisky, whose Socialist Party (SPÖ) lost its absolute majority in the April 24 general elections. The Socialists' share of the vote dropped by only 3.2% and the party continues to be the largest political force in Austria, but the 72-year-old Kreisky had made it clear during the campaign that he would step down unless the SPÖ again won the absolute majority that it had held since 1971.

Provisional election results showed that the Socialist Party received 47.8% of the vote. It will hold 90 mandates in Parliament, a loss of five. The conservative People's Party (ÖVP) wound up with 43.2% (plus 1.3%) and 81 seats (77). The Freedom Party lost about one-sixth of its voters, but through a quirk of the election system gained one additional mandate, for a total of 12. There is a good chance that the Socialists will form a coalition government with the Freedom Party.

Kreisky had held the chancellorship since 1970, and his immense popularity with his countrymen began to sink only in the past few years, as his government was increasingly seen as a "one-man show." Nevertheless, with Kreisky at the helm, the SPÖ had won four successive elections. The Socialists have now nominated Fred Sinowatz, deputy chancellor in the outgoing government, to take over as chancellor.

Portugal: Clear Election Victory for Soares, Socialists

As had been expected, the Socialist Party, led by ex-premier Mario Soares, scored a clear victory in the Portuguese general elections on April 25, though it failed to win an absolute majority. On the basis of 36.3% of the vote, the Socialists (PS) increased the number of their parliamentary seats from 74 to 99. The second largest party is the Social Democratic PSD with 72 (82) mandates, followed by the Christian Democratic CDS with 29 (46).

Since Soares refuses to lead a minority government, political observers believe that the most likely configuration will be a coalition of Socialists and Social Democrats. The PSD and the Christian Democrats had formed the previous administration, and new elections became necessary when Premier Francesco Balsemao, a Social Democrat, stepped down because of squabbles within his own party.

Common Market Reports

EUROMARKET NEWS

Issue No. 747 *Report No. 474, May 11, 1983*

IN THIS ISSUE

Community: Private Investments Seen as Unemployment Remedy

The European Parliament has called on the Member State governments to step up their efforts to encourage private investments as a major remedy for unemployment. In a resolution adopted at the end of a two-day meeting devoted exclusively to employment matters, the EP urges the allocation of special aid for unemployed young people, who make up nearly 40% of the 12.1 million unemployed in the Community. Parliament also backs the principle of a shorter workweek as an additional way of reducing unemployment.

A majority, made up of the center-right parties in the directly elected assembly, has rejected several draft resolutions, presented by the Socialists and Communists, that called for more radical policies to combat unemployment. One suggestion was to introduce the 35-hour workweek and another was to commit 1% of a Member State's GNP to special employment programs. Instead, the EP's majority urges the Member States to continue stimulating private investments.

Rather than give top priority to modernizing and preserving

This issue is in two parts. This is Part I.

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basic industries, such as steel, shipbuilding, and textiles (which is what the Socialists want), the EP recommends support for the establishment of more small and medium-size businesses and suggests more cooperation between technologically advanced companies. Parliament agrees on the need to eliminate obstacles to intra-Community trade and to create a single market for microelectronics. The EP recognizes the effect that excessive pay settlements have on the economic climate; it advises employers and union leaders to settle for modest increases in order to help generate additional investments.

Farm Price Deadlock Over Compensatory Amounts

Observers say that the current deadlock in the talks aimed at setting guaranteed farm produce prices for 1983-84 has once again pointed up a weak spot in the common agricultural policy - the monetary compensatory amounts (MCAs). The talks were postponed until May 16 because of a disagreement over changes in the MCAs, which are designed to compensate for the effect of currency fluctuations on farm prices.

When the EEC finance ministers agreed last March on a realignment of the European Monetary System (the seventh since the EMS was established in March 1979), it meant that the change in parities would also have consequences for intra-Community farm trade. The 5.5% revaluation of the deutschmark on March 21 raised monetary compensatory amounts from 7.5% to 13%. Since then, Germany has been granting farm produce exporters subsidies amounting to 13% of a product's value. German produce exports to France rose, causing violent actions by French farmers against German truck drivers at border crossings.

France has been insisting on the reintroduction of uniform prices, the cornerstone of the CAP, by gradually dismantling the MCA system. The French government wants the farm price talks to lead to a limitation of the system's impact on intra-EEC agricultural trade. France believes that German farmers should be satisfied with a 1% increase in prices, far below the 4.4% average that the Commission has proposed. So far, the German government has said that such a small increase in unacceptable.

In Brief...

On April 26, the Community and Spain reached an agreement on the customs union aspect of Spain's accession, which sets forth the timetable for Spain to apply EEC rules progressively after it joins the EC. Spain was granted a four-year period for phasing out all quotas on products imported from the other Member States. Although the date of Spain's accession is still open (Jan. 1, 1985, is a possibility), the customs agreement is a big step forward in the accession talks. Other topics, such as capital movements and the right of establishment, have already been settled. A big issue still to be agreed on is agriculture + +

France has rescinded the French language rule requiring that all import documents for customs, such as bills, be translated into French. This requirement was introduced last October, and the European Commission threatened to sue France for violation of Treaty Article 30, which bars protectionist measures. Now, only the customs declaration form must be in French. Paris has also lifted the requirement that all imported video recorders must pass through the inland customs office at Poitiers.

Germany: No Major Changes in Sulfur Dioxide Emission Proposal

Despite the public outcry over the extent of acid rain damage to the country's forests, Germany's upper house of Parliament has voted only minor changes in the government's proposal aimed at limiting sulfur dioxide emissions from power plants. Under the proposed regulations, a power plant could not emit more than 400 milligrams of sulfur dioxide per cubic meter of exhaust; the present limit is 650 mg. Existing power plants would have up to ten years to reduce their emissions to the required levels. The upper house has recommended a 300 mg sulfur dioxide emission limit for new power plants and a reduction in the transitional period from ten to eight years. The government's proposal was otherwise left unchanged.

Two upper house committees had proposed some 100 amendments that would have drastically tightened the requirements and pushed up the price of a household kilowatt hour of electricity by about 60%. Nearly all of these proposed amendments, including one to impose a levy on polluting power plants, were rejected by the full house. Although the upper house was unanimous in agreeing on the need to reduce sulfur dioxide emissions, there was considerable disagreement about how to accomplish this goal now. Two states, North Rhine-Westphalia and Saarland, both with a heavy concentration of coal mines and steel mills, feared that adoption of the various amendments would gradually reduce the chances of domestic coal being used by power plants. These two states found some support from other states, leaving Bavaria and Baden-Württemberg, where forests are most affected by acid rain, in the minority in demanding stricter standards.

Britain: Seeking to Improve Insolvency Laws

The U.K. government is expected to introduce legislation to remove certain anomalies, and to counter abuses, in the country's insolvency laws. There has been widespread criticism that no steps have yet been taken to implement any of more than 100 detailed recommendations by the Insolvency Law Revision Committee, chaired by Sir Kenneth Cork. It is expected that the new insolvency law proposals will be put forward in the next parliamentary session, whether or not there is an early general election.

The Committee's report was published last year in June, after five years of preparation, and advocates extensive reforms, including more protection for unsecured creditors, greatly simplified and streamlined insolvency procedures, and stiffer sanctions against unscrupulous company directors. In certain cases, directors would be made personally liable for debts incurred by their companies prior to liquidation.

The minister for consumer affairs, Gerard Vaughan, says that the government accepts the underlying general principles in the report and is giving consideration to framework legislation that would provide a modern body of insolvency law. Vaughan says, however, that the difficulty lies in drawing up provisions that will curb fraudulent practices without, at the same time, harming honest businessmen. The official says it is an "absolute disgrace" to witness how small traders are often unwittingly led into financial difficulties by unscrupulous operators.

Vaughan says he is especially interested in having directors of bankrupt companies stopped from reopening for business under a different company name - a commonplace practice at present. The new legislation will probably seek to remedy such abuses and ensure that directors do not employ insolvency as a means of evading their obligations to creditors. It is also likely that company liquidators will have to be professionally qualified and that there will be enhanced security for all classes of creditors. (See also *Doing Business in Europe, Par. 23,749.*)

France: Supplemental Austerity Measures; New Enterprises Aided

The French cabinet has approved a number of proposed measures supplementing or modifying its March 25 package of economic austerity measures. It has been decided to let the obligatory 10% income tax surcharge earn an interest rate of 11%, which some observers consider fairly generous. To ensure that the efforts to reduce consumers' purchasing power have an immediate effect, there will be a surcharge on the second third of the 1% social insurance levy due in July; this surcharge will amount to 5% of the previous year's contribution and will be set off against the total owed at the end of the year. Households with low incomes and families with many children will not have to pay the full 1%, however.

The proposed 25% increase in tobacco prices will not be implemented in full as of July 1 but in half-year installments of 5%, beginning on that date. The full and immediate tobacco tax increase would add 0.4% to the consumer price index (which rose 2.5% in the first quarter). The change marks the government's second retreat on this issue, since the full 25% increase had originally been scheduled for April.

In answer to criticism that the austerity plan does little to further industrial and commercial activity and development, the cabinet approved a number of proposals in this area as well. Newly established industrial enterprises, including those controlled from abroad, will enjoy complete freedom from direct taxes for a three-year period, beginning immediately. A similar exemption will be recommended by the government with regard to local business and real property taxes. Also, newly established enterprises will be able to obtain low-interest loans; for this purpose, the government will establish an "industrial modernization fund" with an initial capital of FF 3 billion. Special tax incentives will be offered to savers who agree to invest money via a "savings book for industry."

The French employers' federation (Patronat) takes a dim view of some of the proposals. A spokesman described the three-year tax freedom as "almost without benefit" because new businesses cannot normally anticipate profits during their startup phase. The creation of the "savings deposits for industry," he said, will mainly aid the financing of new participatory loans, i.e., new debts, whereas the real need is for a buildup of capital resources.

Five-Year Economic Plan Lacks Detail; Trade Results

France's latest five-year economic plan, to run from 1984 to 1988 and labeled the "Ninth Plan" (since World War II), is seen by most observers as being long on rhetoric and short on detail. Secretary of State Jean Le Garrec, responsible for the administration and development of the plan, described it as the start of a new era. Others said it reads much like a manifesto designed to pacify the Socialist Party's left wing, which is disgruntled by the government's new austerity measures.

Apart from the language employed, the program's 12 priorities appear to differ little from the ambitions displayed by previous governments. The list includes industrial modernization and development of new technologies, more efficient use of energy resources, improved export techniques, enhanced employment, development of social communications, better education, administrative decentralization, modernization of the health system, and improvement of the quality of life.

More concretely, the plan sets a two-year deadline for balancing France's external account. Its authors hope to reduce dependency on imported energy to 50% of total energy consumption by 1990 (65% in 1982). Research and development spending is targeted to rise to 2.5% of GNP by 1985 (currently 2.1%), with some 60% of the required funds to come from industry itself. A selective approach is to be taken toward reducing the workweek to 35 hours.

The outlines of the plan are to be debated in Parliament this month, but the details will not be discussed until the fall.

In other news, the French trade deficit in March reached a seasonally adjusted FF 6.58 billion. Although lower than the shortfalls in January (FF 9.6 billion) and February (FF 7.6 billion), the figure deals a severe blow to the government's hopes of bringing the shortfall down to FF 45 billion for the whole of 1983 (to about half of the 1982 deficit). Since the first quarter deficit already amounts to half of the year's target, Paris has now shifted the target forward: the new aim is for an FF 45 billion deficit between this month and May 1984.

Luxembourg: Tax Increases to Finance Aid to Arbed Steel

The Luxembourg government has achieved agreement with business and labor representatives on details of proposed tax increases to finance state aid for the restructuring of ailing Arbed Steel, the country's leading industrial group and employer. The increases would affect value-added tax and taxes on motor fuels, cigarettes, and alcohol. Income tax would rise by 3.5 percentage points. The government did not succeed, however, in winning the labor unions' agreement on holding down pay raises to 10% over the next two years, since workers had already been promised increases of 7.5% for the current year.

The fiscal proposals involve increases in both direct and indirect taxes to take effect on July 1, provided Parliament approves the package. The standard rate of value-added tax would go up from 10% to 12%, the rate for daily-use items from 5% to 6%, and the rate for essential items from 2% to 3% *(Doing Business in Europe, Par. 26,325)*. These increases are expected to produce LF 2.4 billion annually in additional revenues. Excise tax increases of varying degrees would affect cigarettes, alcohol, and gasoline and diesel fuels (LF 738 million). Telephone charges would be raised as well (LF 256 million). The existing "solidarity tax" in support of the unemployment insurance fund would be boosted from 6.5% to 10% for individuals, from 2% to 4% for companies, and from 4% to 6% for payers of local business tax (LF 1.055 billion). All the increases combined would raise total added revenues of LF 4.459 billion annually. In addition, the floating of an LF 4 billion bond issue is planned.

In order to keep purchasing power losses for low income groups within limits, the government intends to propose a number of social relief measures involving, among other things, interest rate reductions and higher family allowances. No agreement was achieved with the unions on modifications, or even the abolition, of the wage indexation system; this topic will continue to be the subject of further talks between the government, the business community, and labor.

In early April, the center-right coalition administration of Pierre Werner outlined to the EEC Commission a five-year financial support program for Arbed. The plan includes state aid totaling LF 9 billion over the first two years. The company would cut back its production capacities from 5.25 million to 4 million metric tons and reduce its work force from 16,500 at present to 11,000-12,000 over the five-year period.

Arbed SA reported a loss of LF 4.279 billion for the 1982 business year, following a loss of LF 3.177 billion the year before. Price increases implemented during the first half of 1982 enabled the company to raise its sales by 14.3%, to LF 49.048 billion, even though volume was 4.9% lower than in 1981.

Sweden: Profits Tax Approved; Higher Energy Taxes Proposed

The profits tax has once again become an issue for Swedish politicians and businessmen now that Premier Olof Palme has initiated discussions of an institutionalized system to be introduced in 1984. Parliament had already provoked cries of "creeping nationalization" from the Conservative opposition and the employers' federation last month when it approved a 20% special tax on dividends to help fund employment programs.

Current proposals for 1984 include the diversion of 20% of company profits to a special fund, for investment on behalf of wage earners. A substantial range of allowances would, however, reduce the total proportion of diverted profits to about 6%. A basic free allowance of SKr 500,000, or 6% of the wage bill, whichever is higher, would effectively exempt from the tax all but the largest firms, which account for about 10% of all companies. Revenue from the tax would amount to about SKr 2 billion per year. In late summer this year, an expert commission is due to report on possible models for the management of investments. The two favorites remain the existing state pension fund, which is already the most influential force on the Swedish stock market, and a new wage earners' fund.

In other news, the government's supplementary budget introduced in Parliament to modify proposals for the financial year 1983-84 (running from July 1) proposes substantial tax increases on most forms of energy, especially electricity, gasoline, and heating fuel. The bills covering these plans are unlikely to be supported by the Communist deputies in the Riksdag, on whom the government normally relies, since the Communists are unhappy over the abandonment of plans to increase the payroll tax. The purpose of the higher energy taxes is to generate about SKr 3.5 billion in new revenues per year, partly to cover the needs of an SKr 2.7 billion employment program and partly to prepare for a minor tax reform that would reduce the top income tax bracket to 50% by 1985.

Despite a proposed spending increase, from SKr 294.4 billion to Skr 298 billion, the budget deficit is expected to fall slightly, from SKr 90.2 billion to SKr 89.9 billion. This decline is due largely to the government's optimistic economic expectations. Following the 16% krona devaluation of last October, the first quarter of 1983 showed a considerable trade surplus, and exports are expected to rise by 7% this year. The government predicts now that 1983 will bring a 1.8% economic growth rate (after a January forecast of 1.4%), compared to last year's 0.5% decline.

EURO COMPANY SCENE

Amoco Italia, the Italian affiliate of Standard Oil Co. (Indiana), may soon be sold to another "international group," according to a letter of the parent company to employees of Amoco Italia. The Italian firm operates a refinery in Cremona, a refined products pipeline, and about 1,000 service stations. Amoco Italia has been up for sale since late 1981 because of poor financial results. The potential buyer is rumored to be Saudi Arabian.

Reports from Spain say that Dow Chemical intends to build a plant in Bilbao for the production of styrofoam and extruded polystyrene foam insulation, both products used mainly in the construction industry. The value of the proposed investment is reported to be more than $5.6 million.

American Telephone & Telegraph will shut down one of its three plants in Ireland, with a loss of about 500 jobs. The closure affects the largest plant of AT&T's Telectron subsidiary, at Dublin, a manufacturer of advanced telecommunications equipment. The plant has incurred annual average losses of $3.9 million as a result of low international demand.

Closure is also being considered for the Belgian operations, at Liège, of Memorex (Burroughs), the U.S. producer of computer peripherals, magnetic tapes, and disc packs. The plant has been hit by several weeks of strikes over the implementation of the 35-hour workweek, a government policy proposal designed to encourage new employment. The workweek in this particular industrial sector in Liège is now 36 hours. The unions at Memorex insist on a 35-hour week. The company management originally had proposed 35.5 hours, an offer it has meanwhile withdrawn.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: More VAT Revenue Sought to Avert Budget Crisis

To avert a major budget crisis, the Commission has proposed to the Council of Ministers that the Community be given 1.4% of the assessment base of the Member States' value-added tax revenue instead of 1%, which it has been getting since 1970 *(Common Market Reports, Par. 5012.13)*. This income from VAT revenue accounts for about 60% of the Community's funds, with the remainder coming from customs duties and agricultural levies.

The rising costs of the common agricultural policy are straining the Community's budget. Should world market prices for agricultural commodities drop further in 1983, the Community could run up a deficit of around $600 million next year because subsidies for farm produce exports would rise accordingly. For this reason, the Commission is also proposing an important change in the way the CAP is financed. Those Member States that have been benefiting most from the CAP (France, the Netherlands, Italy, and Denmark) would have to pay more. Britain and Germany, the only States that pay more into the budget than they get back, would pay less. France's CAP contribution would rise from 23.7% to 27.8%, and Italy's from 12.7% to 14.5%. Germany's per-

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centage would go down from 29.8% to 28.5%, amounting to annual savings of about DM 143 million. The U.K.'s share would decrease from 19.1% to 11.1%, amounting to an estimated equivalent of DM 1.1 billion annually.

The two Commission proposals will head the list of topics that the heads of government or state are scheduled to discuss at their June 6-7 meeting in Stuttgart, West Germany. Many Brussels observers are pessimistic about the chances of all of the Member States endorsing the Commission's proposals, in particular with regard to raising the VAT ceiling to 1.4%. Approval of the VAT proposal would mean that Germany alone would have to pay DM 3.5 billion more each year. The necessary ratification by the national legislatures could take up to two years.

Support for Proposal on Inter-State Waste Transport

The Economic and Social Committee has welcomed the Commission's draft directive on controls over inter-Member State transport of toxic waste but, at the same time, has recommended several improvements. With the recent revelations about the inter-State shipments of Seveso waste in mind, the ESC sees a need for action and wants early approval of the measure by the Council. The draft directive would ensure the uninterrupted monitoring of the transport of hazardous wastes from the source to the final disposal site, even if that site is in another State.

The ESC doubts whether the proposed provisions would really protect human health and the environment. The proposal should state more clearly that hazardous waste should generally be disposed of in the country of origin, the ESC believes, and that waste should be shipped abroad for final disposal only in exceptional cases - for instance, when it cannot be safely disposed of in the country of origin. In any case, a Member State should be free to refuse waste that cannot be safely disposed of.

Another of the committee's recommendations deals with an administrative aspect of controlling the inter-State shipment of hazardous waste. Article 3 stipulates that the country of dispatch, transit, or disposal is to determine the "competent authorities" that are to be notified about transit and disposal. The committee regrets that the proposal does not indicate whether these authorities are to be local, regional, or national ones. Although each Member State, for constitutional and other reasons, must be free to determine which agency is competent to receive notification, the ESC says, it would be easier for manufacturers and consignors to deal with the local authorities in the country of dispatch. In the country of destination, it would be better to deal with a central agency that has sufficient knowledge about available disposal facilities, according to the committee.

The ESC says that a six-month period to adapt national rules to the directive is preferable to the proposed 12 months.

In Brief...

For the first time in 11 years, unemployment in the Community did not rise in March but declined from 11.2% to 10.9%. Total unemployment at the end of March was 12.1 million, 270,000 less than in February. The EC Statistical Office says that seasonal factors were largely responsible for the decline, since the lower unemployment count cannot be traced to a genuine economic upturn in any Member State + + + Edgard Pisani, Commissioner responsible for development policy, who, as French farm minister in the 1960s, helped develop the common agricultural policy, has demanded a drastic reform of the CAP. In a confidential study that reportedly caused consternation among his colleagues, Pisani says that, by guaranteeing prices for some commodities without reference to world market prices, the system has contributed to surpluses that can be sold off abroad only with the help of huge subsidies. Pisani suggests that farmers be penalized to a greater extent for producing too much and that competitive imports from abroad be taxed. (In this connection, it has been announced that the EEC's butter surplus rose from 38,000 tons in April 1982 to 379,000 tons in April 1983. The skimmed-milk powder surplus rose from 272,000 tons to 718,000 tons during the same period. Increased production and lower export sales are responsible for these increases.)

Ireland: Comprehensive Measures Against Tax Evasion

The Irish finance minister, Alan Dukes, says that this year's Finance Bill, as previewed in February's Budget and just published, represents the most comprehensive set of measures to combat tax evasion in many years. He says that the various provisions are the government's response to recent protests by trade unions against the existing fiscal system.

New penalties introduced to combat evasion provide for imprisonment for up to five years and fines of up to £10,000 (Irish). The Revenue authorities will publish lists of persons fined or imprisoned for tax offenses as a result of a court action and also of those who reach a settlement with the authorities when the sum payable is at least £1,000 and when there has not been full voluntary disclosure. Observers regard this as a particularly effective deterrent.

To combat attempts to delay tax payments through lengthy appeals, any appeal will generally have to be brought within 12 months from the actual date of assessment. An application filed after that deadline will be considered only if the tax is paid, pending the appeal, and proper accounts are submitted. Tax cases in the High Court and the Supreme Court will, for the first time, be held in public.

The Revenue Commissioners will be empowered to demand a full disclosure of assets when they have reason to believe that there has been a serious breach of the Income Tax Code. A similar requirement can be imposed on persons acting as trustees or in a representative capacity. In addition, persons who hold shares or securities as nominees may be obliged to disclose the identity of the beneficial owner. With regard to interest tax relief for nonresidents, a residency affidavit will have to be submitted by the person seeking tax relief on deposit income.

Dukes said amendments will be made to the Bill in its passage through Parliament to require, among other things, that tax figures be clearly stated on invoices and receipts. This proposal is also regarded by observers as likely to prove a major step in combating tax evasion.

The Finance Bill proposes for the first time that earnings from illegal activities, such as pirate broadcasting and illegal gambling, be taxed. This proposal is contrary to a 1928 ruling of the Supreme Court that profits from unlawful activities are exempt.

The government is proceeding with its Budget proposals for the introduction of advance corporation tax, which should raise an annual total of Ⱡ10 million. The tax will apply to dividends or distributions made after Feb. 8, 1983; it may be carried back for one year or be carried forward indefinitely. However, it is possible to elect that it is not payable on intergroup dividends.

Some relief is offered to hotels, which will pay a 5% lower rate of value-added tax - a relief that may in turn stimulate tourism. A property tax of 1.5% will definitely be introduced on houses and apartments worth more than Ⱡ65,000 and owned by persons earning at least Ⱡ20,000 a year.

Belgium: New Incentives for Foreign Investors

A series of Belgian government measures designed to promote investment and employment offers new incentives especially to foreign investors. Among the most important measures are a ten-year tax holiday for both newly established Belgian administrative centers of multinational companies and high-technology investments in designated zones as well as new concessions regarding the taxation of expatriate executives in Belgium.

'T-zones'.--Investment in so-called T-zones, which the government will designate within the next few weeks, entitles companies to a ten-year corporation tax exemption, provided certain other conditions are met. Industrial and commercial activities in these zones must be devoted to "technological progress," preferably in such areas as data processing, microelectronics, office automation, telecommunications, bio-engineering, etc. Companies established in these zones must employ between ten and 200 workers in order to qualify for the exemption. The corporation tax exemption is supplemented by freedom from social insurance taxes for a company's foreign executive employees working in Belgium (see below).

In addition, the central government expects the municipalities involved to exempt companies set up in T-zones from local taxes.

Coordination Centers.--The establishment of coordination (administrative) centers in Belgium by international companies leads to tax benefits similar to those enjoyed by T-zone companies. Among activities and operations qualifying for this status are centralized financial operations, insurance and reinsurance, the gathering and distribution of data and information, advertising and promotion, liaison activities with national and international organizations, etc. The direct or indirect participation of an international (parent) company has to be at least 20%, and the multinational company has to have a consolidated base capital, including reserves, of at least BF 1 billion and consolidated sales of at least BF 10 billion. The multinational company has to employ at least ten persons in Belgium to qualify for the benefits.

Foreign Executive Employees.--Until the end of 1982, such employees *(cadres)* enjoyed a tax exemption of 30% of their annual gross incomes, limited to BF 450,000 per year *(Doing Business in Europe, Par. 21,365)*. As of this year, this exemption has been withdrawn, but the employer companies may now pay to such employees tax-free allowances and differentials (cost of living, housing, moving expenses, home leave, tax equalization, etc.), which, in many cases, benefits employees more than the previous tax exemption. In contrast to previous practice, these allowances are not subject to social insurance contributions.

Services performed by foreign executive employees outside Belgium are exempt from Belgian income tax; in other words, an employee who spends 40% of his working time outside Belgium is taxed on only 60% of his gross income (excluding the tax-free allowances). In contrast to the previous arrangement, there is no longer a time limit on this preferential treatment.

Italy: New Elections in June; Revenue Bills Postponed

President Sandro Pertini dissolved the Italian parliament on May 4, thereby clearing the way for new general elections on June 26-27, about one year ahead of schedule. The parliamentary elections will coincide with local and regional elections and therefore will spread over two days.

New national elections became necessary after the withdrawal of the Socialists from the coalition government of Prime Minister Amintore Fanfani. Socialist leader Bettino Craxi is expecting his party to benefit from the premature elections and, in fact, hopes to become the country's first Socialist premier, even though his party is relatively small. In the 1979 elections, the Socialists won 9.8% of the vote, as compared with the Christian Democrats' 38.3% and the Communists' 30.4%. However, it is taken for granted that, given another small gain for the Socialists in the upcoming balloting, any coalition government will depend on the Socialists' support, and this is what Craxi hopes to capitalize on.

The current government crisis is estimated by budget planners to cost the Italian treasury some 10,200 billion lire because it has prevented the urgently required parliamentary passage of several revenue bills. Among the postponed measures are an increase in value-added tax, reductions in pension benefits, a special surcharge on real property owners, and some cost sharing by persons using the services of the national health system.

Rome Issues Statistics Documenting Poor Tax Morale

Earners of employment incomes, whose income tax is withheld at the source, have been bearing the brunt of Italy's tax progression inflation over the years, whereas "independent" taxpayers, like small businesses and self-employed persons, are often managing to dodge the tax squeeze. This picture emerged at a recent press conference in Rome, at which Finance Minister Francesco Forte used statistics compiled from the tax declarations of the year 1980 to document the poor tax morale of many of his countrymen.

According to the government figures, the average Italian small business proprietor declared an annual 1980 income of only 6.3 million lire, less than the average wages of a worker (7 million lire). Shopkeepers declared an average income of 6.6 million lire, less than that of a primary school teacher (8.3 million). An even lower income was reported by the farmers, who claimed to have earned no more than slightly over 4 million lire a year. Closer to the true situation, according to the Finance Minister, were the declared incomes of public notaries (61.8 million lire), stockbrokers (37.2 million), and physicians (20.5 million). (For these individuals, however, evasion or avoidance would have been more difficult, observers noted.)

The Confindustria industrial federation, in a lengthy statement, has rejected the notion that Italian entrepreneurs generally are potential or actual tax evaders. The organization points out that the figures used by the Finance Minister do not include partnerships, capitalized companies, and stock corporations, which are predominant above a certain business level and which pay their taxes in accordance with the requirements. It is conceded, however, that much can still be done to improve the tax honesty of small businesses, particularly when it comes to income tax, value-added tax, and social insurance contributions.

A Finance Ministry commission, meanwhile, is studying plans for a completely new fiscal assessment system, which, patterned after French procedures, would take into account personal life styles as manifested by sailing yachts, vacation homes, large household expenditures, etc. These measures would complement the required, though gradual, introduction of electronic cash registers and value-added-tax receipts for businesses, which was instituted some time ago.

Germany: Employee Bonuses to Be Spread Over 12 Months

Chancellor Helmut Kohl's most recent government policy address has received a positive response from the German business community despite the fact that it contains no new elements beyond those featured in the new coalition agreement and in Kohl's inaugural statement last October. Kohl continues to see as the main tasks of his government fighting unemployment, promoting economic growth, restoring fiscal health, and securing the old-age pension system. Rather than promise quick remedies for any of the major economic ailments, Kohl said that further sacrifices will have to be made.

In view of Bonn's commitment to cut red tape, businessmen were disappointed that the Chancellor did not announce abandonment of the plan to spread the total of employees' Christmas, vacation and anniversary bonuses over 12 months, adding increments to the monthly pay checks. The purpose of this concept is to generate more revenue, especially for the old-age pension funds, although it would mean more work for payroll departments. Business and union leaders have suggested instead an increase in the old-age insurance contribution rate from 18.5% to 19%. (The rate goes up from 18% to 18.5% as of Sept. 1 - *Doing Business in Europe, Par. 40,467, 40,470.*) Kohl indicated, however, that the government will adhere to its original plan.

Netherlands: Warning on High Unemployment; Bank Rates

Holland's Central Planning Bureau, the state-linked economic forecasting agency, has warned that unemployment may rise from its present level of over 750,000 to reach a peak of 1 million by December. (The average unemployment count, in annual terms, is expected by that time to total 820,000.) By European Commission standards of assessment, this figure would be equivalent to 18% of the national labor force, which would be one of the worst levels in the EEC.

The CPB's overall view of the Dutch economy, as outlined by its director, Cees van den Beld, is pessimistic. The generally hoped-for slight recovery in world economic conditions is seen as unlikely to have any effect on the Netherlands, and GNP is expected to fall by 0.5% this year. The only bright spot could be a slight increase in industrial investment in some sectors, including oil refining, chemicals, aerospace, and mining.

The main problem, in the CPB's view, is that, despite the low rate of increases in wages (3.5%) and prices (2.5-3%) expected during 1983, the strength of the guilder has prevented any improvement in the country's competitive position. In this regard, Van den Beld appears to contradict the view of central bank president Willem Duisenberg. In the bank's latest annual report, Duisenberg says that if there is a global economic upswing, the Netherlands is in a position to profit from it due to a healthy competitive position resulting from a low inflation rate, low interest rates, and plenty of available production capacity. Duisenberg points to the 2 billion guilder rise, to 10 billion guilders, in last year's payments balance surplus as evidence of Holland's good foreign trade position.

Van den Beld and Duisenberg agree, however, in opposing any kind of government measures to artificially stimulate the economy. Both point to the large state budget deficit to demonstrate that such efforts would only worsen the situation. Last year the budget deficit reached 9.2% of GNP, and the central bank is forecasting that it could be as high as 13% this year. The central bank's annual report urges further attempts to reduce government spending, despite continuing protests from opposition parties, and says that any maneuvering room created by such savings should be used to reduce the corporate tax burden.

In related news, the central bank on May 2 raised key interest rates by one percentage point. The new discount rate is 4.5%, the secured loan rate (equivalent to the Lombard rate) is 5%, and the promissory note rate is 5.5%.

Spain: Socialists Win Elections; Higher Taxes in Budget

The clear victory in the Spanish regional and communal elections on May 8 of the governing Socialists has strengthened their political position and is expected to help them in tackling the country's economic problems. A major test will come in the parliamentary debate over the 1983 budget, which was submitted only this month, just prior to the elections, because of the change of government late last year.

In the first draft budget presented by the Gonzalez administration, the deficit has been trimmed slightly, to 1,100 billion pesetas, compared with last year's 1,200 billion pesetas, but the resulting figure is still close to 6% of GNP. The overall income tax burden would rise by about 1%, with the maximum rate going up from 42% to 45% *(Doing Business in Europe, Par. 28,329)*. On the other hand, families with incomes below 1.5 million pesetas a year would receive some relief. The corporation tax rate would rise from 33% to 35% *(Doing Business in Europe, Par. 28,318)*; however, as an investment incentive, companies would be allowed deductions that could total 100% over a five-year period.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: EC Court Defeat for Klöckner on Quotas, Fine

The European Court of Justice has rejected five actions brought by Klöckner-Werke AG, Germany's No. 1 steelmaker, against the Commission with regard to production quotas for the first, third, and fourth quarters of 1981 and for the first and second quarters of 1982. The Court also rejected Klöckner's appeal against a DM 5.2 million fine imposed by the Commission after Klöckner exceeded production quotas for the first quarter of 1981 (judgments of May 11, 1983, Case Nos. 244/81, 303/81, 311/81, 312/81, 30/82, and 136/82).

The Court of Justice accepted none of Klöckner's three major arguments. Klöckner contended that the steel crisis management system adopted by the Council of Ministers in late 1980 (and extended several times since then) was faulty and that the Council should never have authorized the Commission to take decisions of that magnitude, such as imposing production quotas. The EC tribunal found no fault and said that the Council was empowered to delegate powers to the Commission. The steelmaker's second argument, which carried more weight because Advocate General Gerhard Reischl also supported it, was that the actual quo-

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tas allotted to Klöckner were far too low, considering all the circumstances, and therefore were not equitable. The EC Court found no validity in that argument, nor did it accept Klöckner's third contention that the company's "exceptional situation" justified exceeding the production quotas. After having built a steel mill in the 1950s, Klöckner restructured and modernized the plant at an estimated cost of DM 500 million. The EC Court said that it was the decision of the Klöckner management to make this investment and no one else could be blamed for the company's financial problems.

Klöckner's attorneys are disappointed by the Court's judgment, but they say that the legal fight is far from over. There are seven other actions pending before the Court, all directed against the Commission's fines for exceeding quotas. These fines now total DM 189 million. The first judgment is expected toward the end of the year. The Klöckner management also announced that all legal avenues will be tried once the Commission has asked the German government to render assistance in collecting the DM 5.2 million fine. An order of execution would be attacked in the civil courts and would eventually also be challenged before the Federal Constitutional Court, if necessary, according to Klöckner's attorneys, who hope to put the Community's crisis management system to the test.

There have been reports that the payment of all the fines and compliance with the quotas could mean bankruptcy for the steel company, which employs 34,000.

Commission Concerned Over Rising State Aid Trend

In its recently published 1982 competition policy report, the Commission points to a rising "subsidy mentality" among businessmen and leaders of the Member State governments as a result of the recession that has been besetting the economies of the States for a number of years. In 1982 the Member State governments submitted to the Commission 232 applications for state aid, the highest number so far (1981: 141). In 104 instances, the Commission approved the aids without attaching any strings. In 128 cases, the Commission initiated the formal procedure provided for in Treaty Article 93(2); in these cases, it attempted to convince the governments involved to go along with the changes suggested prior to approval *(Common Market Reports, Pars. 2931, 2932)*. In 13 cases, the Commission issued formal decisions rejecting the planned state aid as incompatible with Treaty Article 92 *(Common Market Reports, Pars. 2921, 2922)*.

The EC Executive concedes in its report that, because of the economic and social repercussions when a government's aid plan is rejected, it cannot always follow the strict course of the Treaty, which generally bans subsidies except under certain conditions. The Commission has to consider that planned national aids must be compatible with the interests of the Community as a whole rather than with those of a single State. The EC Executive sees the positive effects of aid for the Community whenever assistance favors economic growth, improves industrial structures, reduces regional imbalances, and promotes research and development. The Commission is preparing guidelines that will be more explicit than present guidelines as to whether planned state aids are compatible with the Community's interests, notably where world market developments clearly encourage industrial restructuring.

In the report, the Commission answers briefly some questions that are of interest to businessmen. One of them is: under what circumstances would the EC Executive be prepared to exempt crisis cartels from the ban of Treaty Article 85(1)? (These cartels provide for concerted reduction of production capacity in industries hit by crises or undergoing adaptation.) The answer: the Commission may authorize such agreements, but under these agreements adequate competitive conditions must be maintained, and a genuine reorganization of production structures must take place.

In Brief...

The Commission has filed suit against France in the European Court of Justice for allegedly violating EEC Treaty obligations by granting illegal state aids to the French textile industry. Since early 1982, the French government has allowed most textile manufacturers to pay 8-10% less in social security taxes in order to help companies restore their financial strength and ability to compete. After establishing that the tax concessions distort competition and amount to an illegal state aid, the Commission asked Paris last January to come up with a plan to abolish the practice. When the French government missed the Feb. 21 deadline and let it be known that it plans to continue the aid for another year, the Commission brought suit + + + The Commission has lifted its reservations about recent German tax legislation that allows small and medium-size enterprises to set aside a tax-exempt reserve when buying a business that is bankrupt or about to go bankrupt. The EC Executive had maintained that the reserve constitutes a state aid and thus is subject to Treaty Article 92. The German government succeeded in convincing the Commission that the tax reserve concept can be reconciled with EEC Treaty rules on state aid.

Belgium: Study Urges Radical Cutbacks for Cockerill Steel

In a study commissioned by the Belgian government, a French management consultant, Jean Gandois, has submitted a rescue plan for the ailing steel group Cockerill-Sambre (CS) that would entail the shutdown of two of CS's four steel mills and reduce the work force by one-third by the end of 1986. The loss of jobs would total 8,000, the difference between the present work force of 22,650 and the target of 14,650. Gandois estimates the cost of the drastic restructuring program at BF 95 billion, which is BF 66 billion more than the government has currently committed to Cockerill.

The conclusions reached in the Gandois report have revived the discussions over the future of Cockerill, which, in effect, represents the Belgian steel industry and remains a major employer in Wallonia, the French-speaking region of Belgium, where unemployment is particularly high. It has been estimated that some 100,000 jobs depend on the continued viability of the group if Cockerill's suppliers and other dependent businesses are included in the count.

The Cockerill issue focuses on not only an economic problem but a political one as well: the government is the main shareholder in CS and has to weigh the consequences of continuing to commit large public funds to the crippled enterprise, while seeking to keep employment in Wallonia from going down further. With this in mind, the coalition administration of Premier Wilfried Martens has not committed itself to the findings of the Gandois report and now faces negotiations with the company's management and the labor unions in trying to find a solution acceptable to all sides. Whatever the compromise achieved, however, it must meet with the approval of the European Commission under the EEC's steel crisis management system.

Cockerill ran up losses of BF 17.2 billion in 1981 and of BF 11.45 billion last year and has accumulated debts of BF 93 billion. By the end of 1982, the Belgian state had contributed funds totaling BF 131 billion in capital, loans, and guarantees in order to keep the group afloat. In his report, Gandois sharply criticizes the company's management, which he says had entertained "illusions" in assessing the markets and in calculating production costs. Gandois says the Cockerill managers had turned in "the worst entrepreneurial performance of the entire European steel industry" and that the company can survive only by severing its most vulnerable parts.

France: Extended Wealth Tax Exemption for Americans?

There is a good chance that the present three-year exemption from the new French wealth tax for Americans residing in France will be extended to five years or even longer, according to a report in the International Herald Tribune, Paris, on May 13. The report said negotiations were started last January between officials of the U.S. Treasury Department and the French Finance Ministry on an amendment of the U.S.-French tax treaty. A Treasury Department official was reportedly "encouraged" by the progress of the talks, which could be completed "within a few weeks."

The wealth tax *(Impôt sur les grandes fortunes - IGF)* is imposed on the worldwide net assets of all residents in France, citizens or foreigners, at the rates of 0.5% on assets of FF 3.2-5.3 million, 1% on assets of FF 5.3-10.6 million, and 1.5% on assets exceeding FF 10.6 million *(Doing Business in Europe, Par. 22,870)*.

Because of the new tax, introduced by the Socialist government as part of the 1982 budget, numerous wealthy Americans, many of them retired, have reportedly left France or are planning to leave. The American business community in France, represented by the American Chamber of Commerce in Paris, has been campaigning for a longer wealth tax exemption mainly in the interest of American business executives temporarily residing in France as well as for the sake of U.S. investments in France. The wealth tax cannot be credited against any U.S. income taxes owed.

The Herald Tribune report said U.S. tax lawyers in Paris estimate that a maximum of several hundred wealthy Americans, out of 30,000-50,000 U.S. citizens living in France, have changed their legal residence to avoid the wealth tax.

French 4 Billion ECU Loan Approved by EEC Council

The EEC's finance ministers on May 17 approved a loan of 4 billion European currency units (ECUs) for France to boost its foreign exchange reserves. The terms of the loan, which will fall under the Community's so-called oil facility, have yet to be determined by the European Commission and the Bank of France, in cooperation with the EEC Monetary Committee. Gerhard Stoltenberg, West German finance minister and president of the Council, said the largest part of the loan will be raised in non-Community currencies. The Council attached no special economic conditions to the approval after French Finance Minister Jacques Delors had explained the current austerity measures of his government, which are aimed at reducing the French trade and budget deficits and lowering the inflation rate.

Britain: Early Elections Scheduled for June 9

General elections will be held in the U.K. on June 9, when the Conservative government will have completed four years of a maximum five-year term of office.

The opposition Labour Party has accused Prime Minister Margaret Thatcher of adopting "cut and run" tactics, in reference to the fact that the economic situation is now more favorable than can be expected later in the year, when the inflation and unemployment rates may have gone higher. Moreover, all the opinion polls suggest that the Conservatives will secure a comfortable overall majority in the next Parliament. A significant factor is the large number of undecided voters, and some observers believe that the elections will be a much closer contest than the present opinion polls suggest.

Certain sections of the 1983 Finance Bill, which sets forth the Budget proposals, have had to be abandoned by the government in order to ensure the Bill's passage before Parliament was dissolved on May 13. These sections are mainly concerned with the raising of the mortgage limit for tax relief on interest, from Ł25,000 to Ł30,000, the increase in the higher income tax bands by 14%, and measures relating to mitigating capital gains tax.

Thatcher will be defending her government's record in the election campaign, pointing to the reduction in inflation, more balanced trade union legislation, and tax incentives to business and industry. She has frequently said that she needs another five-year term in order to bring about necessary economic and political changes.

The Liberal and Social Democratic alliance, which appears to be losing ground in the opinion polls, is advocating a crash program of investment and expenditure, the aim being to reduce the number of employed by one million within two years. The program would be financed by a Ł3 billion increase in borrowing and a substantial reduction in defense expenditure. The alliance's incomes policy would be strengthened by imposing fiscal penalties on companies that agree to excessive pay settlements. However, an early introduction of an electoral reform and a form of proportional representation would be a precondition of any pact with either of the two major parties.

The main issues featured in the Labour Party's manifesto are a promise to have Britain quit the EEC and a pledge to increase public spending substantially, thus creating new jobs and bringing the total of those out of work to below one million within five years. Defense expenditure would be drastically cut. Conservative trade union legislation would be repealed, import controls would be introduced, and a national investment bank would be set up, while government investment in industry would be boosted.

Germany: Industry Pledges to Reduce Automotive Exhausts

Representatives of German automakers and of the fuel producers' association have told the government that within the next few months they will come up with plans on how to further reduce harmful automotive exhausts. A major element of this plan would be the production of unleaded gasoline. In Germany, the lead content of gasoline may not exceed 0.15 grams per liter *(Doing Business in Europe, Par. 23,544B)*; the EC standard is 0.40 *(Common Market Reports, Par. 3315.29)*.

At a recent meeting with government leaders, the industry representatives emphasized that realization of their commitment would make sense only if the Community establishes uniform standards on reduced automotive emissions and unleaded gasoline. An even better solution would be to achieve these standards through the wider forum of the Economic Commission for Europe (ECE), according to the representatives. Roughly one-third of the new models made in Germany this year have engines that emit 20% less carbon monoxide and nitrogen oxide than required by ECE standards, to which the EEC adheres. This reduction was done voluntarily in anticipation of the planned 20% lowering of emission levels by the EEC.

For years Germany has been trying to persuade its Common Market partners to act on a proposal that it submitted in 1981. The proposal, presented originally to the ECE forum at Geneva in 1977 and rejected, calls for a drastic reduction in emissions from internal combustion engines. The German government has been saying all along that there are no technical obstacles to building engines that could meet the tightened emission standards it is suggesting. Bonn rejects the economic argument that this kind of engine would increase car prices. BMW and Daimler-Benz (Mercedes) engineers have proven that tightened emission standards need not lead to higher fuel consumption, Bonn says.

Spain: Nationalization of Electric Power Network

A framework agreement has been reached between the Spanish government and the country's six major private electrical utilities on the nationalization of 76% of Spain's electric power grid. The agreement, concluded after negotiations between Industry and Energy Minister Carlos Solchaga and the presidents of the companies affected, is linked to a promise by the Socialist government to review electricity price structures after completion of an audit of the companies' books in June. The audit will be carried out with the full cooperation of the utilities, which incurred operating losses totaling 1 billion pesetas in 1982. Some of the companies are heavily in debt, and all of them want Madrid to approve higher rates.

The new national grid system, which is to be set up to optimize electric power production and distribution, will be controlled by a joint company in which the government will be the majority shareholder. Compensation terms have not yet been decided. After the agreement takes effect, by the end of this year, the private utilities will pay fees for using the grid.

The negotiations also concerned the future of the national energy plan and resulted in a pledge by the Ministry to authorize as soon as possible the start-up of three new nuclear reactors (two at Almarez, near the Portuguese border, and one at Asco, Catalonia). The general downscaling of energy consumption forecasts has, however, resulted in a decision to put a freeze on the planned third generation of nuclear power plants.

EURO COMPANY SCENE

The U.K.'s Fitch Lovell PLC has received two rival bids for its Key Markets subsidiary from the U.K. subsidiary of Safeway Stores, Inc., Oakland, Calif., and Linfood Holdings PLC of Britain. Earlier, Safeway and Fitch had agreed on a price of £34.8 million for the 98 Key Markets supermarkets, pending the approval of the Monopolies and Mergers Commission and Fitch shareholders. Subsequently, however, Linfood came forward with a £37.8 million bid and, in a letter to its shareholders, indicated that it may renew a previous bid for a complete takeover of Fitch Lovell. Linfood had made an offer of £175 million for Fitch Lovell last November but allowed the bid to lapse when the Dept. of Trade referred the proposed merger to the Monopolies Commission.

The United States' Monsanto, which controls two-thirds of Fisher Controls International, a supplier of industrial process control systems, has agreed to purchase the remaining one-third from General Electric U.K. for $178 million. Fisher operates plants in the United States, Britain, continental Europe, and the Middle East. It reported sales of $588 million in 1982 and employs about 9,000.

A leading German producer of printing inks, Hartmann Druckfarben GmbH, Frankfurt, has been taken over by Inmont Corp., Clifton, N.J. (United Technologies). The previous owners were the Hartmann family (50%) and Harpener AG. The price of the transaction was not disclosed. With production plants in Germany, Austria, Switzerland, and France, Hartmann has an annual turnover of about DM 200 million.

Ford U.K. will begin the European production of diesel engines for passenger cars in September at the company's Dagenham plant, East London. Ford will start with 1.6 liter engines but may step up to larger engines in the future. At Dagenham, the company has an initial capacity of 150,000 units a year.

Becton Dickinson & Co., the U.S. health care products company, plans to dispose of its British research center, Huntingdon Research Centre PLC, which employs about 1,000. A preliminary prospectus for a public offering of four million shares put the price at $15-17 per share, valuing the proposed deal at $60-68 million.

Common Market Reports

EUROMARKET NEWS

Issue No. 750 *June 1, 1983*

IN THIS ISSUE

Community: Controlling Pollution From Industrial Plants

The Commission has proposed a draft directive to control air pollution from industrial plants. As the initial step of the Community's drive for improved air quality, the proposal would establish principles that the Member States would have to follow when their legislatures enact air pollution control laws. Emission limits for individual pollutants, or categories of pollutants, would be established by a separate directive.

A major principle for the Member States would be to ensure that the construction, operation, or substantial alteration of industrial plants with pollution potential are subject to licensing. An annex to the proposal lists the categories of plants for which a license should be required, such as plants producing and processing metals or chemicals. Moreover, Member States could set down stricter rules and require authorization for additional categories of plants.

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Another principle would be that a State could grant a license only if (a) construction and operation of a plant does not entail any danger for employees or the general public, or any significant harm to the environment, as a result of air pollution; (b) all possible steps have been taken to prevent any dangerous or harmful effects to man and the environment; and (c) the air quality (measured away from the source) and emission standards (measured at the source) laid down by the Community or national laws are met. Having standards that allow for measurement away from the source or at the source is a concession to the existing national policy methods of controlling air pollution.

The Commission has several reasons for presenting the proposal. The Community's third environmental action program (1982-86), which was adopted by the Council of Ministers last December, calls on the EC Executive to continue its efforts to establish air quality standards. To this end, the measure forms part of the Commission's contribution to the fight against acid rain and long-range pollution across national borders. Another consideration in presenting the proposal is the differing air pollution control standards that distort competition within the Common Market.

Endorsement of Second Work Safety Action Program

The Economic and Social Committee has endorsed the Commission's proposal for a second action program on work safety and health. The program would make a positive contribution to the improvement of health and safety at work, the committee believes, but nevertheless the ESC has suggested several changes.

The aim of the second program is to continue to improve protection for some 100 million workers in the Community. A beginning was made in 1978 with the adoption of the first action program, which was extended until the end of 1982 *(Common Market Reports, Par. 3910.49)*. Fourteen areas of work were covered in the first program, but in its implementation priority was given to the control of dangerous substances. A directive aimed at limiting the risks related to exposure to metallic lead at work was adopted by the Council of Ministers last year; another proposal dealing with the risks associated with asbestos is pending before the Council, and last October the Commission proposed a measure to reduce noise at work *(Common Market Reports, Par. 10,428)*.

Some of the 14 areas have not been touched upon during the past four years, and in other areas work has not gone beyond the preparatory stages. The Economic and Social Committee wants an assessment of cost benefits for every proposal. The ESC also wants an improved exchange of information among the States on job safety aspects, and it suggests a Community monitoring system. As far as the protection of workers is concerned, the ESC recommends setting up a European data bank on occupational cancers.

In Brief...

On May 17 the Council decided that guaranteed prices for farm commodities in the EEC for the 1983-84 marketing year will be on the average 4.2% higher than in the previous period, thus ending a struggle of nearly six weeks to reach an agreement. Expressed in national currencies and considering the adjustments in the monetary compensatory amounts (granted or levied in inter-Member State trade), farmers will be given increases of 2% in Germany, 4% in Britain, 7% in France, and 26% in Greece. This rise is the lowest in the past ten years, but the Commission believes that an extra $400 million will be needed this year and a further $690 million in 1984, in addition to the budget allotments of these two years + + + The Council of Ministers has reached basic agreement on the Seventh Directive on Consolidated Accounts, but formal adoption may have to wait several months *(Common Market Reports, Par. 1407)*. Council lawyers must still convince the Member States to withdraw some 200 reservations concerning certain details in 25 individual articles.

Germany: Government to Propose Tax Relief Measures

The German government's draft budget for fiscal 1984 provides for a series of tax relief measures and improved write-off terms which will be proposed to Parliament in June. Some of these measures were part of the governing coalition parties' agreement *(Doing Business in Europe, Par. 40,511)*. The measures are aimed at improving the business climate and thereby boosting employment.

Business taxpayers could count on an increased exemption from net worth tax - DM 200,000 instead of the current DM 20,000 *(Doing Business in Europe, Par. 23,361A)*. In addition, only 75% of a taxpayer's business property exceeding DM 200,000 in value would be included in the net worth tax base. This feature would cost the government an estimated DM 1.2 billion in revenue. The government is also going to propose substantial net worth tax relief for individual shareholders. A taxpayer's shares would be assessed at only half of their real value. This plan would cost the government around DM 200 million.

An important change would affect corporate taxpayers. Under present law, a resident corporation owning at least 25% of the stock of another resident company may exclude from its taxable income the dividends paid by that company. The 25% ownership threshold *(Schachtelprivileg)* would be lowered to 10% and would apply to resident as well as nonresident companies. The overall tax relief here would amount to some DM 220 million.

Small and medium-size businesses would benefit from a one-time increased depreciation allowance for new movable assets, excluding automobiles. For example, a taxpayer buying a machine could in the first year deduct 10% of the cost, in addition to the standard depreciation *(Doing Business in Europe, Par. 23,334)*. The government expects to lose some DM 800 million annually through this planned change. All taxpayers investing in assets used for research and development could claim, until the end of 1989, additional depreciation of up to 40% of the cost for movable assets and up to 15% of the cost for buildings *(Doing Business in Europe, Par. 23,337)*.

Britain: Steep Rise in Direct Investment Abroad

Figures just released by the U.K. Dept. of Trade indicate that direct investment by British companies in businesses overseas has totaled £13 billion since the Conservative government abolished exchange controls three and a half years ago, in October 1979 *(Doing Business in Europe, Par. 40,010)*. The net level of foreign investment, excluding oil companies, amounted to £2.77 billion in the first year of abolition. This figure rose to £3.43 billion in the following year and by 1981 had again climbed steeply, to £5.1 billion. However, provisional figures for last year, at £2.63 billion, suggest only something like half that figure. The most favored outlet for U.K. funds has been the U.S., where more than £7 billion was invested in the period from 1978 to 1981.

In addition, it is estimated that U.K. financial institutions, such as pension funds and insurance companies, have invested more than £10 billion in securities overseas since the exchange controls were removed.

The figures do not include funds transferred abroad by individuals during this period or any capital spending overseas by U.K. companies.

The mass exodus of U.K. investment funds has come as a considerable surprise to observers because it was assumed that after the initial outflow following the lifting of the controls overseas investment would soon decelerate. The increase in actual net earnings from foreign interests has been minimal, however, rising from £2.8 billion in 1979 to only an estimated £3 billion last year. During the same period, there was a marked decline in the level of overseas investment in the U.K., from £1.79 billion to £1.1 billion (although the 1980 figure of £2.57 billion was much higher).

Ireland: Downward Revision of Economic Forecasts

The latest annual report of the Irish central bank includes a somewhat gloomy forecast for the Irish economy for the current year in the wake of the government's rigorous budget proposals in February. At the beginning of 1983, the bank had expressed a more optimistic view. At that time, a slight growth in the gross domestic product had been anticipated (0.75%), but now the prediction is for zero growth, reflecting a downward revision of the GDP to £13.73 billion (Irish), nearly £200 million less than had been expected before.

Moreover, the bank's experts now see the probability of an 8.5% drop in investment volume, compared with the January estimate of minus 1.25%. The annual inflation rate, it is predicted, should remain at approximately 10% during this year, contrasting with government predictions of 6-7%. Employment in manufacturing industry is likely to decline by a further 3%, the report said, and industrial output should grow only marginally, if at all. Finally, a real-term decline in disposable personal incomes appears inevitable, according to the bank.

Meanwhile, there have been more protests and marches by trade unionists against inequities in taxation, which benefit farmers and the self-employed to the detriment of wage and salary earners. However, it is seen as an encouraging sign that, for the first time in 14 months, there has been a slight fall in the number of unemployed, though observers doubt whether this improvement can be sustained.

Belgium: Payments Deficit Declines; Investments Pick Up

Prime Minister Wilfried Martens has told bankers attending the opening of the International Monetary Conference in Brussels that Belgium's current account payments balance should be in equilibrium by 1985 if the present trend continues. The payments deficit dropped in 1982 by at least BF 25 billion, in what Martens termed a "spectacular turnaround." The premier cited other figures in support of his argument that the government's economic austerity measures are beginning to take hold: inflation is now declining from last year's 8.7% rate, industrial output is on the rise, and productive investment has been stabilizing. Martens conceded, however, that there is no real hope for unemployment to decline from its present high level of 15% until the end of next year.

The slightly brighter overall outlook for the Belgian economy is also reflected in the business attitude toward investments. A spokesman for the VBO industrial federation said that a measure of confidence in the government's stability policies was already demonstrated last year, when total investments rose by 11.4% to BF 372 billion. In real terms, the increase was 2.5%, and for this year the VBO experts predict an acceleration to 3.5%. In monetary terms, nonindustrial investments last year went up by 13.9% to BF 183 billion, while industrial investments rose by 9.4% to BF 189 billion. For some individual sectors, the increases were as follows: banking and insurance, 37.4%; metalworking, 14.4%; foods and beverages, 12.7%; chemicals, 16.3%; and small metalworking enterprises, 67.1%. Still on the decline were investments in the electrical equipment sector (minus 12.9%) and in construction (minus 7.8%).

The VBO spokesman noted that Belgium is apparently better off in the investment realm than most of its Western European neighbors, where there are hardly any signs of an impending improvement. He said that the accelerated activity was also due to the decision of many enterprises to carry through investment projects that had been postponed in previous years.

France: Trade Deficit Shrinks, But Inflation Up Again

For the first time since the Socialists came to power, the French foreign trade balance for any month is nearly in equilibrium, and Premier Pierre Mauroy claimed that France is now "well on the road to monthly deficits of less than FF 2 billion." The monthly trade deficits went down from FF 9.5 billion in January, FF 7.6 billion in February, and FF 6.5 billion in March to only FF 1.5 billion in April (seasonally adjusted). This sharp decline, described as "sensational" by some economic observers, has been seized upon by the government as proof that its austerity policies are having an impact. In effective figures, the April results are nearly balanced, with imports at FF 59.88 billion and exports at FF 59.79 billion, leaving a shortfall of only FF 90 million.

The improvement in the foreign trade balance stems largely from the drop in imports, which reflects lower domestic demand in the wake of the pay freeze, reduced public spending, and a lower oil bill. Government officials are well aware, however, that April was exceptionally favorable in terms of trade and that forthcoming monthly results may not be as encouraging. Only last month, the government extended its own deadline for halving the annual trade deficit to FF 45 billion: instead of accomplishing this task within the current calendar year, the aim is now to do it by May 1984.

Elsewhere on the economic scene, the latest data are far from encouraging. The 1.4% inflation rate for April is the highest monthly rate since July 1981, and the annual rate is again in excess of 10% if the first four months of 1983 are used as a base. The dollar exchange rate reached a record FF 7.427 on May 17, and the government is fearing negative effects on the nation's import bills. An INSEE survey showed that even before the implementation of the official austerity measures industry had planned to reduce real-term investments by another 4% this year, after 5% in 1982. While unemployment has dropped below the 2 million threshold, in seasonally adjusted terms the decline was only 0.5%. Also, there has been a steep fall in the number of job vacancies - by 9.5% to only 52,660, seasonally adjusted.

Switzerland: Amended Law Against Unfair Competition

The Swiss government has approved and sent to Parliament a draft revision of the existing Law Against Unfair Competition *(Bundesgesetz über den unlauteren Wettbewerb)*, which dates from 1943. The bill seeks to incorporate various improvements into the law, reflecting the fact that over the past 40 years or so competitive conditions have changed as the result of new trade structures and methods. To safeguard free competition, the amended law would be worded in such a way as to cover even those types of unfair trade practices that may not be specifically enumerated.

The amended law would lay emphasis on curbing abuses and offering more protection for consumers in such areas as advertising and promotion, packaging, pricing, and litigation. For instance, the law would continue to allow comparative advertising in Switzerland (which is not the rule in all of Western Europe), but such advertising could not include false, deceptive, or depreciative statements. Repeated cut-rate pricing would be prohibited if such "special offers" tend to deceive consumers about the business's general price levels. Deception would be presumed, for example, if retail prices are lower than prevailing cost prices or wholesale prices for the same product or service. In the legal area, consumers' litigation rights would be extended to actions seeking to prevent or stop abusive practices, not just to recover damages. Also, it would be possible in the future for business, trade or consumer organizations to file court suits.

Norway: Gradual Admission of Foreign Banks?

In presenting its recent budget revision, the Conservative Norwegian government indicated that it is prepared to allow foreign banks to set up in Norway, but Prime Minister Kaare Willoch cautioned that the process would have to be gradual. The foreign banks, initially "a small number," would have to operate as Norwegian joint stock corporations and be subject to the same regulations as domestic banks. A precondition for allowing the establishment of foreign banks is a revision of existing banking law by Parliament, where the Conservatives do not have a majority and depend on the support of the Center and Christian People's parties.

A commission composed of representatives of the regulatory authorities, the finance ministry, and the central bank had submitted a study late last year on the issue. It said that, because of the well developed domestic banking system, there is no real market demand for additional financial institutions in Norway. However, the presence of foreign banks could facilitate the process of "internationalizing" the Norwegian krone, the commission said.

One major argument against the establishment of foreign banks is that they would have an initial competitive advantage by being able to concentrate on corporate clients rather than the retail business, with resultant cost savings. Furthermore, while foreign banks, like the domestic banks, would be required to purchase state bonds, they would be able to buy only new issues with relatively high yields, while the domestic banks still hold large portfolios of "old," low-interest bonds. As to the latter problem, the commission said a solution would be to either offer the domestic banks compensatory tax relief or obligate the foreign banks to acquire older government bonds from the Norwegian banks.

The study pointed out that because of Norway's offshore oil business Norwegian companies already maintain close contact with foreign banks and that it would be a mistake to create artificial barriers in this respect. During the past 15 years or so, the leading Norwegian banks have established affiliates abroad, and for reasons of reciprocity they tend to be in favor of opening the domestic market to foreign banks. They say that both Denmark and Finland have done so in the past, without upsetting their domestic banking systems. (In Europe, Sweden and Portugal are the only other countries with similarly restrictive rules.)

Of the U.S. banks, Citibank, Bank of America, and Chase Manhattan reportedly would be interested in getting set up in Norway.

EURO COMPANY SCENE

Poclain, the French manufacturer of construction equipment, which is 40% owned by the United States' Tenneco, has appointed an American, David Bigelow, as board chairman, after reporting a consolidated net loss of FF 283 million for 1982. The year before, Poclain had made a profit of FF 40 million. Bigelow, previously a vice president of Tenneco, Inc., had served as director-general at Poclain from 1978 to 1981. The company has been closing plants in Belgium and Spain and is in the process of reducing its group work force from 7,000 to 5,600 to weather the crisis on the international construction equipment market.

Ford Motor Co. plans to invest some £7.5 million at its Halewood plant, near Liverpool, in the British production of transmissions for the Escort model; currently, the transmissions are being manufactured at the Ford plant at Bordeaux, France. The decision will end 18 months of short-time work for 1,650 Halewood workers.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Program to Promote Information Technology

The European Commission is expecting the Council of Ministers to take a decision next October on an ambitious program to promote European information technology and to help industry to "catch up with its American and Japanese competitors within ten years." Labeled ESPRIT (European Strategic Program for Research and Development in Information Technology), the project is aimed at having European information technology eventually take its fair share of the world market, thereby safeguarding and expanding employment in the Community. The program would include the coordination of R&D activities in the Member States and direct financial contributions for cooperative R&D projects.

The ESPRIT plan, mapped out under the stewardship of Commission vice-president Etienne Davignon, identifies the areas of advanced microelectronics, advanced information processing, and software technology as the three principal sectors for action: "Their mastery is the key to making the strategy succeed." Office automation and computer integrated manufacturing are identified as the two major areas of specific application. In all

This issue is in two parts. This is Part I.

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these areas, ESPRIT would help to establish a new technological basis for the next generation of products and systems, coordinating and supporting research activities in the "precompetitive phase."

The Commission wants the Council to allocate 1.5 billion ECUs to support the first five-year phase of ESPRIT, beginning next year. Under the proposal, the cost would be split 50:50 between the Community budget and industry. (It is this aspect which may raise a major problem, some observers believe, since the EEC's ongoing budget crisis is making it increasingly difficult to secure financing for any special projects.)

Approval and implementation of the program are vital to the survival of Europe's high-technology industries, according to the EC Executive, which cites various facts and figures to support this contention. In 1975, the report says, the Community still boasted a trade surplus in information technology products, but since then it has incurred growing deficits, with the shortfall exceeding $10 billion last year. "Eight out of ten personal computers sold in Europe are imported from the USA," the report says. "Nine out of ten video recorders sold in Europe are from Japan. European-based integrated circuit manufacturers supply (only) 30% of their own home market and represent 13% of world production, half of which is manufactured in the USA by subsidiaries of European companies..."

"Because of the increasing direct or indirect influence of electronics in practically all aspects of industrial life in the western world, what was in the past just technological dependence in a few specialized areas is now threatening to become industrial and economic dependence plain and simple," the Report said.

In Brief...

At the first session of the EEC-Yugoslavia joint committee in Brussels, the Yugoslav foreign minister asked for more financial aid from the Community as well as for more flexible terms and conditions. In accordance with the cooperation agreement between the EEC and Belgrade, which took effect in April, the Community will grant financial assistance in the amount of 200 million ECUs by 1985. The European Investment Bank loans involved are tied to specific projects, but Yugoslavia would also like to use these funds for industrial restructuring purposes and export promotion. The West German foreign minister, Hans-Dietrich Genscher, said the EEC would consider the request, but he made it clear than an increase in assistance could not be considered before 1985. The Community will also study Yugoslavia's complaint over decreasing veal exports to the EEC, which totaled only 17,000 tons in 1982 despite a quota of 50,400 tons + + + The Community's foreign ministers have agreed on June 14-17 as the date for next year's European Parliament elections rather than May 17-20, as originally scheduled. The later date was set at the request of Parliament itself; thus, the Parliament will have served just over five years since the first direct EP elections in 1979. The foreign ministers also pledged to agree on a common electoral system in time for the 1989 elections.

France: Tax Incentives to Promote New Industries

The French government has given the go-ahead for a number of tax concessions intended to promote new industries and industrial investment. The measures include temporary, discretionary exemption from the local business tax and the creation of a new Industrial Development Savings Account *(Codevi)*. The cabinet action on May 25 had been preceded by some advance information in April from Industry Minister Laurent Fabius, who said the incentives should help to stimulate industrial investment, which declined by 6% last year.

The government hopes to raise additional investment funds of FF 3 billion this year and FF 5 billion annually as of 1984 through the creation of the *Codevi* savings plan, under which any individual can deposit up to FF 10,000 in an account earning tax-free interest. (The rates of interest have not yet been fixed.) The savings, to be collected through the Caisse des Dépôts et Consignations, will finance a new Fund for the Modernization of Industry. This fund will enable banks to provide low-interest loans to businesses active in new technologies or producing energy saving equipment.

Furthermore, local governments are now authorized to free new businesses for up to three years from paying the *taxe professionnelle*, a business tax *(Doing Business in Europe, Par. 22,843)*. This decision should make it easier for local governments to attract new industries, although there will also be a loss of revenue on which most of them have come to depend. The discretionary tax exemption will take effect next year, applying to profits earned in 1983. The temporary exemption does not, of course, mean the complete abolition of the tax - a step that has long been demanded by business and was originally intended by the government *(Doing Business in Europe, Par. 40,359)*.

The latest measures are supplemental to those provided in the Finance Act last January. Since Jan. 1, for instance, all taxpayers receive a 25% tax credit on the purchase of shares up to FF 7,000 annually (FF 14,000 for married couples). Purchase costs exceeding this limit may be carried forward to the following year. In addition, new forms of participatory investments have been created for shareholders of both private-sector and public-sector companies.

Paris to Raise Steel Industry Funds; Creusot-Loire

The French government is setting up a state finance agency for the purpose of raising funds on the domestic financial market for the country's two largest steel groups, Usinor and Sacilor. The two companies, which were nationalized in 1978, need the capital to finance their part of the restructuring of the French steel industry. The industry's recovery program projects investments of FF 8-9 billion by Usinor and FF 8.5 billion by Sacilor by 1986. The major portion of these funds will have to come from the government, and the new intervention fund, Fonds d'Intervention Sidérurgique, will have the function of raising the necessary capital and lending it to the two steel companies at subsidized interest rates. In return, Usinor and Sacilor will issue convertible bonds to the state. It was thought necessary to set up the independent agency because the two troubled steel groups are not in a position to raise funds on their own.

One of the first transactions to be financed in this way will be Usinor's complete takeover of Peugeot-Loire, which is 67% controlled by Peugeot, the private automobile company, and in which Usinor holds the remaining 33% share. Peugeot-Loire is the country's third-largest specialty steel company and one of the few steelmakers that operate profitably, with sales last year of about FF 700 million.

In related news, the French heavy engineering and steel company Creusot-Loire (Schneider group) has asked the government to "nationalize" its steel subsidiaries in return for up to FF 2 billion in financial assistance. Creusot-Loire reported a loss of FF 600 million last year and is rumored to be practically bankrupt. Under the company's proposal, half of the requested FF 2 billion in public assistance would go to raise the state's existing equity in Framatome, the nuclear power plant manufacturer, by 20%, to 50%. Framatome is the only Creusot-Loire subsidiary (70%) that is profitable, with net earnings of FF 500 million in 1982.

Denmark: Defeat for Schlüter; Borrowing Continues

The Danish minority government, under the leadership of Poul Schlüter, a Conservative, is facing demands for its resignation after being defeated on May 26 in a parliamentary vote over the country's national security policies. Parliament voted 83-70 for a motion by the opposition Social Democrats asking the government to urge a stop of the preparations for the installation of U.S. medium-range missiles in Western Europe and to insist on the unlimited extension of the U.S.-Soviet disarmament talks in Geneva, among other points. Political observers said that the parliamentary vote, which conflicts with Denmark's position within the NATO alliance, is bound to put the four-party coalition administration to a severe test.

In other news, Denmark is continuing its international borrowing by raising some $560 million via four separate loan facilities. Banking sources said that although the Danish government has already covered its borrowing needs for the current year, it is taking advantage of favorable market conditions and improved terms. One facility involves a $200 million, seven-year Euromarket loan, aimed specifically at U.S. regional banks. The funds raised would finance the Danish current account deficit, which is expected to run to some 16 billion kroner this year, down from 20.2 billion kroner at the end of 1982.

Ireland: Foreign Firms Boost Industrial Development

Last year 85 foreign companies decided to establish operations in Ireland, and a further 90 indicated their intention to expand existing operations, according to the Industrial Development Authority *(Doing Business in Europe, Par. 25,151)*. The IDA estimates that this may eventually lead to at least 29,000 new jobs, of which slightly less than half would be created within the next five years.

Overall, nearly 1,000 new projects, or expansions of existing businesses, were sanctioned by the IDA last year. The agency said that the electronics and health care sectors are now accounting for almost 45% of the country's manufacturing exports. However, there also have been several closures in recent months, with a consequent loss in jobs, and more are likely to follow. Last year, the IDA provided financial aid for some 120 companies, ensuring protection for some 8,000 jobs, but this did not prevent a net loss of jobs. In this connection, Ireland's Economic and Social Research Institute has predicted that unemployment will rise to 16.1% of the total work force by April 1984, compared with the current figure of 13.6%.

In reviewing the performance of the IDA recently, Industry Minister John Bruton said there is a need to look more closely at the development of the secondary subcontracting industry and at government policies concerning natural resources. Generally, however, Bruton appears optimistic about industrial development in Ireland. "We have attracted big international names," he said, "and we are going to continue to be successful."

Britain: Changes Due in Setting Accounting Standards

The chairman of the U.K.'s Accounting Standards Committee, Ian Davison, has indicated that there will be substantial changes in the British practice of setting accounting standards within the profession. In the future, any changes are to be concerned only with matters of "major and fundamental importance" which affect companies generally and are relevant to all accounts that are intended to give "a true and fair view." The actual process will also be accelerated considerably with the initial publication of a brief statement of intent, which will invite public comment. Subsequently, the customary exposure draft will be drawn up, and this document will be made available for discussion by the various accounting bodies and the public.

As a result of the changes, Davison said, there will be fewer mandatory standards. However, a new category will be introduced - a statement of recommended practice - which will not be mandatory and will apply only to those topics that do not satisfy all the criteria for an actual standard. Companies will be urged to comply with these statements but will not face any sanctions if they fail to do so. Accounting for goodwill is likely to be covered by such a statement, for example.

Davison said that the ASC has a duty to improve the quality of accounting in the U.K. and "push out its frontiers," a task that cannot be achieved by standards alone. There are some areas, he said, which have "pressing needs for guidance" - for example, banking, construction, oil and gas, and shipping. Davison proposes that such sectors set up their own working groups to provide draft recommendations which the ASC could then approve and include in a further category of "franked statements of required practices."

Germany: Labor Agency Eases Job Referral Monopoly

Under German law, only the government agencies may refer unemployed persons to jobs - a monopoly that prevents private employment agencies from operating in Germany *(Doing Business in Europe, Par. 23,427)*. Last month, however, the Federal Labor Agency (Bundesanstalt für Arbeit) instructed the labor offices around the country to be more lenient in exercising this monopoly and not to insist on the payment of fines in all cases of unauthorized private job referrals. The agency has thus reacted to mounting criticism by both business representatives and politicians, who have argued that the strict interpretation of the rules (laid down in the Work Promotion Law - *Arbeitsförderungsgesetz*) is not conducive to bringing down unemployment, now at around 2 million in Germany.

The relaxation of the monopoly rule by the Labor Agency, set down in an internal memorandum to the labor exchange offices, is expected to encourage private initiatives designed to help the unemployed. The agency itself has called on the labor offices to cooperate more with businesses, business organizations, chambers of commerce, public administrations, and labor unions in this respect. In particular, the agency hopes to have these joint efforts result in more apprenticeships and vocational training openings for school leavers and other young people.

There have been several instances recently where private groups or individuals have openly circumvented the regulations by taking matters into their own hands. In the Cologne-Bonn area, for example, a group of young businessmen set out to find jobs for 40 young men and women who had just been released, or were about to the released, from prison. With the help of the prison authorities and social administrations, all 40 found jobs, and the local labor office refrained from bringing legal action, in view of the special circumstances. A similar initiative was reported in Mülheim, where a private group of sponsors - including housewives, students, and pensioners - looked after several unemployed young people and managed to find jobs or apprenticeships for their charges.

In Bavaria, however, the owner of a laundry was recently fined by the local labor office for the referral of 14 apprenticeships, and the state Labor Agency of North Rhine-Westphalia criticized private job referral actions, saying that these are often used as public relations projects. The government's monopoly in this field, the agency said, serves the good purpose of protecting the interests of the unemployed and disadvantaged groups of job seekers and of guaranteeing the payment of minimum or contractual wages and salaries after successful referral.

Norway: U.S. Continues to Lead in Foreign Investments

Foreign ownership of shares in Norwegian limited liability companies totaled $593 million in 1981, compared with $564 million in 1980. The total capitalization of the 1,834 companies with foreign participations was $1.56 billion, and in 1,400 companies the foreign-held equity exceeded 50%. During the 1974-81 period, U.S. investors continuously held the largest share of foreign capital in Norway, and in enterprises with more than 10% foreign capital the U.S. share averaged 25.3%. In 1982, foreign investment in Norway rose by $80 million, 60% more than the year before, with the U.S. once again providing the bulk of the new capital.

Overall industrial investment in Norway has been falling since 1981, according to the Federation of Norwegian Industry. A 20% decline was reported last year, and the federation predicts another 20-25% drop in 1983. Government statistics show an NKr 8.1 billion rise in investments so far this year, but this gain originates solely from oil and gas production, which is offset by a NKr 7.8 billion decline in inventory investments and reflects mainly the delivery of drilling platforms, pipelines, and other equipment.

Oslo Government May Form Majority Coalition

Prime Minister Kaare Willoch may soon form a three-party coalition resting on a parliamentary majority of 79 seats in Norway's 155-seat Storting. Since the last elections in October 1981, the Conservative leader has headed a minority government dependent on the votes of two smaller parties, the Center and the

Christian People's parties. Willoch heads the first Conservative government in Norway in over half a century.

In previous negotiations between the three parties, the main stumbling block has always been the insistence of the Christian People's Party on the repeal of the liberal Norwegian abortion law as a precondition to joining any government. The Conservatives have now indicated their readiness to compromise on this issue, and the Christian People's Party has also shown more flexibility, suggesting that it would be ready to join a coalition administration in the event of a particularly difficult political situation. Johan Jakobsen, leader of the Center Party, said recently that the time may have come for a change in the form of cooperation between the three parties. If a coalition agreement is reached, the sharing of political responsibilities, as exercised over the last one and a half years, will then be formally reflected in the cabinet as well.

Switzerland: OECD Expects Economic Upturn in 1984

The OECD's latest annual survey of the Swiss economy is again giving the Swiss government high marks for its coordination of economic and monetary policies and for playing a "stimulative and supportive role" in economic management, without resorting to undue intervention. This performance has contributed substantially to maintaining the country's good record in the matter of inflation and employment, the OECD says.

Nevertheless, the Paris-based organization anticipates continued stagnation for the Swiss economy this year. GDP is expected to fall by 0.4%, even though there might be a slight upturn in the second half of the year. (GDP dropped by 1.3% in 1982.) Domestic demand has remained weak so far, and exports of goods and services could decline by 1%.

The prospects for 1984 are decidedly better, with exports expected to rise by 3.25% and unemployment to decline from about 1% to 0.5%. Inflation should settle at 3% this year in annual terms, after 5.7% in 1982 and an expected 3.5% this year. The current account surplus, predicted to total $3.7 billion in 1983, should fall only slightly next year, according to the report.

Again, as in the surveys of the previous years, the OECD is somewhat critical of the low proportion of Switzerland's GNP that goes to development aid; the Swiss rate of 0.24% compares to an OECD average of 0.33%.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Commission's Revenue Plan Rejected by Germany

Chancellor Helmut Kohl has told the recent convention of the Christian Democratic party (CDU) that the German government is totally opposed to the proposed new financing system to boost Community income. The core of the Commission plan is the gradual raising, from 1% to 1.4%, of the ceiling on value-added tax revenue currently contributed by the Member States to the EC budget *(Common Market Reports, Par. 5012.13)*. The increase would require the unanimous approval of the Council of Ministers and a three-fifths majority of the European Parliament.

Raising the VAT ceiling to 1.4% means that Germany would have to pay an additional DM 3.5 billion to the EC budget. VAT is the Community's major revenue source, providing more than half of the EC's annual budget of 25 billion ECUs ($23 billion). Although the Commission does not plan to propose an increase to the full 1.4% this year, Chancellor Kohl has made it clear that he is against even the smallest increase at this time. It is the first time that a German chancellor has chosen to use a political forum at home to reject a Commission proposal rather than go through the institutional channels in Brussels.

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Rejection of the Commission's revenue boosting plan means that the EC Executive will have to search for other ways to solve the Community's financial problems. Such solutions could include cutbacks in the costly common agricultural policy (favored by several Member States, including Germany) or the tapping of other revenue sources. One new source could be a tax on the consumption of energy by households. After toying with the idea for months and long internal discussions, the Commission agreed on June 3 to suggest the idea of an energy tax to the Council of Ministers. In February the Commission dropped its plan to propose a tax on imported crude oil.

The European Parliament is supporting the Commission's proposal to raise the 1% ceiling on VAT revenue, but this strong endorsement is expected to have no bearing on the German government's determination to oppose the proposed approach for securing the future financing of the EC.

Submission of Amended Vredeling Proposal Held Up

Disagreement within the Commission over an important detail in the controversial proposed Vredeling directive on workers' consultation and information has held up submission to the Council of Ministers of the amended version of the proposal. Commissioner Karl-Heinz Narjes objects to the clause that leaves it to the Member States to decide on the method of electing the labor representatives, who would be consulted and informed by management. For Narjes, the issue involves a principle that also ties in with the proposed Fifth Company Law Coordination directive, which would provide for workers' representation on supervisory boards *(Common Market Reports, Pars. 1350.251, 1401D)*. (Adoption of this proposal was delayed last April, also because of internal disagreement within the Commission.)

Last December the European Parliament recommended many changes in the measure, including the election of representatives by secret ballot. Although Commissioner Ivor Richard, who is responsible for piloting the draft through the Commission, said that the EC Executive would follow most of the EP's recommendations *(Common Market Reports, Pars. 10,421, 10,462)*, he did not specify how labor representatives would be chosen. Britain's unions are opposed to the secret ballot approach, and Richard is reportedly anxious to obtain their support for the proposal.

Proposed by the Commission in October 1980, the Vredeling directive would commit the Member States to adopting legislation that requires the management of multinational companies and groups of affiliated companies to inform employees' representatives at least twice a year about details of corporate policies and activities. The information would have to include the economic, financial, and employment situation, anticipated developments in production and sales, investment programs, rationalization plans, the introduction of new working methods, and all procedures and plans liable to have a substantial effect on employees' interests *(Common Market Reports, Par. 10,265)*. The EP voted that once a year would suffice, and this change is made in the amended version, but with the stipulation that the information given must be brought up to date when similar information is passed to other corporate bodies or interests.

The directive would cover multinationals with at least one subsidiary in the Common Market and groups of affiliated companies established in any EEC Member State. Again in line with the EP's recommendation, the legal obligation to inform and consult employees would fall upon the Common Market subsidiary and not on the parent company established outside the EEC. This change in the draft is expected to remove a great deal of anxiety among American corporate executives over the measures's extraterritorial reach.

In Brief...

The German government has declined, for the time being, to allow collection of the DM 5.2 million fine that the Commission has imposed on Klöckner-Werke, the West German steel manufacturer, for exceeding production quotas for the first quarter of 1981. On May 11, the European Court of Justice rejected Klöckner's appeal (Case No. 312/81). Bonn believes it would be unreasonable to allow collection of the fine at this time because there are five other cases pending against Klöckner, involving fines totaling more than DM 200 million. The Commission does not have the power to collect the fine. Klöckner has so far refused to pay and has also rejected loan offers from its competitors to help pay the fines + + + Even though corporate executives in the Community remain cautious in their optimism about an economic recovery, the European Commission reports that business confidence is rising and has reached a level not seen since mid-1980, especially in France, Germany, and the U.K. Indicators show that "economic sentiment in the private sector is shifting toward optimism, a development which will lead to more consumption, increased investments, and more production," according to the Commission.

Germany: Reform Provisions Struck From New Accounting Bill

The Kohl administration has sent to Parliament its version of a bill that would bring German accounting standards in line with the Community's Fourth Council Directive on annual accounts *(Common Market Reports, Par. 1391)*. The new bill differs considerably from the one presented by the previous government *(Doing Business in Europe, Par.40,381)* in that it no longer includes reform legislation that is not warranted by the Fourth Directive (and which drew criticism from the business community). The original bill died when the Bundestag was dissolved last January.

The new bill, in contrast to the previous bill, does not obligate a special type of limited partnership - the so-called GmbH & Co. KG - to prepare annual financial statements and annual reports. A GmbH & Co. KG partnership has several advantages and is therefore a widely used form of doing business. A major attraction of this form of partnership is that it makes it possible for a corporation to be the unlimited partner without its shareholders assuming liability beyond their investment. The major part of the profits is taxed only once - at the partners' level. Excluding the GmbH & Co. KGs from the scope of the bill would save them considerable cost: it has been estimated that the cost of preparing and auditing the financial statements of these partnerships would be as high as DM 1 billion. There are around 60,000 GmbH & Co. KGs in Germany.

Britain: More Advertising of Financial Information

U.K. companies have now been given much greater freedom to advertise financial information about themselves in the broadcasting media. The changes in the advertising code put out by the Independent Broadcasting Authority follow consultations with the Stock Exchange, the Home Office, and the IBA's own advertising advisory committee as well as the independent television and radio companies themselves, which will benefit financially from the amended practice code.

Public companies listed on the London Stock Exchange may, for the first time, advertise their corporate results. (The grocery supermarket chain J. Sainsbury was the first to take advantage of this relaxation, only days after the change was approved.) More intensive promotion of company prospectuses is now permitted, as is the inclusion of more financial information in corporate advertising. It is also possible to advertise savings facilities in currencies other than sterling that are guaranteed by other EEC governments.

There are, however, strict safeguards to protect the public. All such advertising is to be screened in advance and, where necessary, referred to an independent consultant before transmission. Advertising must not mislead "by exaggeration, omission, or selectivity." In addition, advertisements for any publication on investment and finance may not recommend a particular investment offer. A company is allowed to present a general picture of itself, including financial background details, but this information must not be intended to "enhance the financial reputation of the company in the minds of the investors."

With regard to prospectuses for a new company issue of shares, the IBA stipulates that information may be advertised only if it has gone through the customary Stock Exchange channels. The IBA will require presentation of a certificate from the issuing bank or stockbroker concerned, confirming that the information is accurate.

Advertising for investments in commodities is still not allowed by the code. Also, although celebrities may actually appear in an advertisement, they may not give their personal endorsement to the contents.

Observers believe that many companies will want to take advantage of this greater flexibility in order to communicate more effectively with their shareholders and work forces as well as with the public at large. However, it is not foreseen that there will be any significant decline in the revenue that national newspapers derive from such advertising, conservatively estimated at more than £30 million annually.

Italy: Municipalities to Impose Special Real Property Tax

At the prodding of the central government, Italy's municipal governments have decided to impose a new special levy of up to 20% on revenues from real property; the tax will also affect property owners who live in their own houses and apartments. The tax will be collected for the first time in November, along with the advance payment of income tax. Next year, the municipalities will collect the levy individually, and by that time the real property tax system is to be harmonized nationally. The municipalities expect to raise a total of 1,600 billion lire through the new tax.

Rome had given the municipal administrations until May 31 to approve the introduction of the tax as a precondition to continued financial assistance from the central government. About 90% of some 8,000 municipalities affected opted for the highest tax rate possible under the law, namely 20%. Only three provincial capitals - Bolzano, Campobasso, and Pescara - decided on lower percentages of 12-16%.

Central Bank Chief Laments Missed Economic Chances

The high inflation rate and the uncontrolled public deficits remain the real obstacles to Italy's economic recovery, according to central bank governor Carlo Ciampi, addressing the bank's annual meeting in Rome. Ciampi pointed out that the difference between the Italian inflation rate and the rates of the country's major trade partners has become even larger over the last few months. While most of these countries have been taking advantage of slower price expansion to correct some imbalances in their economic systems, Ciampi said, Italy has been unable to do so because of Rome's inability to attack the central problem - uncontrolled public spending.

The central bank chief blamed the lack of political willpower for Italy's failure to deal effectively with inflation, which, at 16%, is up to three times higher than that of major competitor countries. He said previous governments have continuously violated the constitutional requirement of budget balancing by exploiting a provision of the finance law requiring merely the blanket coverage of all expenditures. Since the law applies only to the first year of those expenditures that extend beyond one year, the annual budgets are now burdened with approved long-term financial commitments that cannot be reversed.

Ciampi did not wholly agree with those who see only positive aspects in a possible economic revival in Italy over the next few months. If this upswing originates not only from foreign trade but also from quickened domestic demand, more government spending, and high wage settlements, then the central bank's stability policies will once more be compromised, Ciampi said. For this reason, he said, the central bank does not intend to loosen its tight monetary reins until both inflation and public spending have been brought under some control.

Netherlands: Reductions in Unemployment, Disability Benefits

The Dutch government wants to achieve some 5 billion guilders in annual budget savings by cutting back unemployment and disability benefits and shortening the duration of benefit payouts. A draft proposal to this effect has been approved by the Lubbers cabinet and sent to the Social-Economic Council for comment. The administration has conceded that the changes are designed exclusively to reduce public expenditure and would not necessarily improve Holland's social welfare system.

The cutbacks are to start next year with a reduction in unemployment and disability insurance benefits from 80% to 70% of previous wages or salary. The level of social welfare compensation paid to persons not eligible for regular unemployment benefits would be reduced from 75% to 70% of previous remuneration. In cases where incomes exceed the legal minimum wage, the benefits would be as low as 60%. The duration of benefit payouts would be tied to the beneficiary's age rather than extend over a straight two and a half years, as is now the case. For instance, young persons up to the age of 23 would not receive benefits beyond a period of six months. On the other hand, a 60-year-old jobless person could collect benefits for up to five years, the longest period allowed under the bill.

The changes would mean a net loss of income of up to 15% for the individuals involved, according to the estimate of the Social Affairs Ministry. Women, however, could generally expect an improvement in relative terms, because the Netherlands will have to adjust national law to a Community directive which bars a provision requiring women to be the principal earners in a family in order to be eligible for unemployment or disability benefits.

The Dutch labor unions have protested that the government's savings measures would hurt the neediest most of all, and even the VNO, the country's principal employers' federation, said the changes would make the benefits "totally inadequate." Nevertheless, the center-right government insists that the reductions are a necessary part of its overall economic austerity program.

European Options Exchange Sets Up New Association

The Amsterdam-based European Options Exchange is setting up a worldwide organization to coordinate the activities of similar options exchanges around the world. The newly established International Association of Options Exchanges will "study and promote the resolution of all problems" connected with options listing, trading, and clearing. All options exchanges and clearing houses will be eligible for membership, and dealers from Chicago, New York, London, Montreal, Toronto, Vancouver, Sydney, and Amsterdam were represented at the founding meeting. Among topics of discussion were the financing of professional traders, cooperation between clearing houses, and the interchange of order book transactions. The president of the EOE, Tjerk Westerterp, is to be the acting chairman.

The EOE itself appears to be becoming increasingly successful. After reporting a first small profit of 26,000 guilders in 1981 and a gain of 690,000 guilders in 1982, the Exchange is expected to make a profit of over 1 million guilders this year.

Westerterp has called on the Dutch government to improve conditions for stock market investors by abolishing double taxation (income tax levied on top of corporate tax).

Denmark: OECD Supports Tough Measures; Confidence Vote

The OECD's latest survey of the Danish economy praises the Conservative minority government for having taken drastic economic action last fall. The measures taken to curb government spending, suspend wage indexation, and return the economy to international competitiveness should pay off in the long run, according to the OECD. It would be a mistake to soften the impact of the program now, despite high unemployment and little prospect of an international economic recovery, the report says.

The OECD forecasts offer little hope of a rapid return to higher growth rates in Denmark. GDP is expected to rise by 1% this year and by 0.5% in 1984, compared to a 3.1% rise in 1982. Unemployment, at 9.8% in 1982, may reach 12% or more by 1984, and industrial production is expected to grow by 0.75% in both the current and the coming year. On the other hand, inflation should be down to 4.7% in 1984, compared to 9.8% in 1982, and the trade balance is expected to show a $1 billion surplus this year, after a $200 million deficit in 1982. The current account deficit, which amounted to $2.4 billion in 1982, should fall to $1 billion by 1984, mainly as a result of falling oil prices and lower interest rates on the foreign debt.

In other news, Premier Poul Schlüter won a vote of confidence in the last session of Parliament before the summer recess, consolidating his government's position after its defeat a week earlier on NATO and foreign policy issues. A last-minute deal with Mogens Glistrup, the Progress Party leader, and two of Glistrup's party colleagues was instrumental in ensuring Schlüter's political survival.

Austria: 20% Withholding Tax on 'Anonymous' Savings Accounts

In his policy statement before Parliament, the new Austrian chancellor, Fred Sinowatz, has broadly committed the newly formed Socialist-Liberal coalition government to a continuation of the course set in past years by successive Socialist governments. Sinowatz promised to maintain the hard-currency policy pursued by Austria since 1970. The most significant concrete decision on economic policy announced was the introduction of a 20% withholding tax on anonymously held savings accounts and securities as of Jan. 1, 1984. The original draft of the proposal, which would have affected all savings accounts, was thought to have been a significant factor in the decline in voter support for the Socialists in the election. Following the coalition negotiations with the small Liberal Party, the withholding tax was limited to savings accounts whose owners want to remain anonymous.

In his economic policy address, Sinowatz said that his government will not hesitate to take unpopular measures, if necessary, to cut the public debt burden (currently 342 billion schillings). Such measures could include an increase in value-added tax from 18% to 20% in the coming fall budget. The social welfare policy of former chancellor Bruno Kreisky will be continued, however, and the cabinet is aiming to reduce unemployment by means of a series of public infrastructure projects, including the modernization and expansion of the rail system.

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Common Market Reports

EUROMARKET NEWS

Issue No. 753 *Report No. 477, June 22, 1983*

IN THIS ISSUE

Community: Court Reduces Fines Against Pioneer Companies

The European Court of Justice has reduced by more than half the fines levied by the Commission against the Belgian subsidiary of Japan's Pioneer Electronic Corp. and its French, German, and British distributors for engaging in concerted practices. The Court cut the fines from 6.95 million ECUs (about $7.2 million) to 3.2 million ECUs but otherwise upheld the Commission's decision (judgment of June 7, 1983, Case Nos. 100/80-103/80).

In 1979, the Commission established that Pioneer Electronic (Europe) NV, the Belgian subsidiary of the Japanese multinational, one of the world's largest hi-fi equipment manufacturers, had organized meetings with its French, German, and British distributors on how to block exports from the U.K. and Germany to the higher-priced French market. The Commission's 6.95 million-ECU fine amounted to 3-4% of the four companies' annual sales *(Common Market Reports, Par. 10,185)*. At the time, the fines were the highest ever levied against a single multinational and its distributors.

In their appeal, the four companies received support from Advocate-General Sir Gordon Slynn, who felt that the high fines were not justified. Although the Advocate-General never questioned that the companies had engaged in practices banned under Treaty Article 85(1), he thought that the Commission should have

This issue is in two parts. This is Part I.

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taken a different approach in setting the fines, such as giving more consideration to how long the practices lasted.

In reducing the fines, the Court conceded that the concerted practices were of shorter duration than the Commission had thought they were. It was found that the practices had lasted only two months in early 1976 and not two years, as had been alleged. However, the Court did not agree with the four companies that the Commission's decision was arbitrary and discriminatory. This position is also reflected in the Court's ruling on the legal costs: while Slynn had recommended that the Commission pay one-fifth of the appellants' legal fees and other costs, the Court said that each side should pay its own fees and costs.

Support for Commission's Commercial Policy Proposal

The Commission proposal aimed at strengthening the Community's commercial policy toward third countries engaging in unfair trading practices has been backed by the European Parliament's Foreign Trade Relations Committee and the Community's Economic and Social Committee. The draft regulation would enable the Community to retaliate against such practices far more effectively and on a broader scale than at present. In addition to the antidumping instrument already available to the EEC, countermeasures on the Community's part could include suspension of negotiated concessions (under GATT, for example) and imposition of customs duties and import quotas *(Common Market Reports, Par. 10,465)*. The decision-making process would not be as protracted as the procedure provided under Treaty Article 113 *(Common Market Reports, Pars. 3815, 3816)*, in particular with respect to GATT's rules on the settlement of trade disputes.

The overwhelmingly positive reaction to the proposal by the ESC took many Brussels observers by surprise. (The vote was 118-3 in favor, with seven abstentions.) Until only a few weeks ago, trading organizations in several Member States had voiced their opposition to the proposed measure. Most of the opposition came from Germany and the Netherlands, where industrialists and importers criticized the broad range of proposed countermeasures as well as the envisaged shifting of power from the Council to the Commission.

Under the present antidumping and subsidized export proceedings, the Council has the final say *(Common Market Reports, Par. 3821T)*. The proposed procedure would leave the Council merely with a right of opposition, which would require a majority vote. Council attorneys believe that the final version of the draft regulation may differ from the original proposal on the distribution of powers issue.

Brussels observers attribute the ESC's positive reaction to, among other things, the German and Dutch industrialist members of the ESC who have relented in their opposition to the proposal. These ESC members apparently have come to believe that the risk of Community countermeasures becoming protectionist in nature is lower than the risk of larger Member States taking protectionist steps of their own.

In Brief...

The Commission's proposal for a new tax on energy consumption is aimed primarily at generating revenue to finance a new, five-year Community program for the rational use of energy and for securing sources of energy. Commission officials admit that they hope this kind of tax will meet with less opposition from the Member States than an energy consumption tax for budgetary purposes only + + + The Council of Ministers has reached agreement on a draft directive on inter-regional air services between Member States. The measure would liberalize the licensing of inter-regional carriers but otherwise has little resemblance to the Commission's original proposal submitted in late 1980. A carrier could be denied a license if an indirect connection already exists between two airports that an applicant airline wants to serve. Because of these and other remaining hurdles, Commissioner Giorgios Contogeorgis does not have much hope for expanding air services between State regions, which was the underlying idea of the original proposal. Greece would not have to comply with the directive until the year 2003.

Britain: Landslide Election Victory for Conservatives

The landslide victory of the governing Conservatives in the general elections of June 9 is generally regarded in Britain as a great personal success for Prime Minister Margaret Thatcher and reflects a clear shift in public opinion following the Falkland Islands conflict last year. The decline in the annual rate of inflation to below 4% is seen as another important factor, whereas the unemployment issue apparently did not affect the outcome to the extent predicted. Political observers say that the government apparently was successful in persuading the electorate that there is no real alternative to its economic policies and that another five-year term is needed to fully implement these policies and make them really effective.

The Conservatives obtained the most decisive electoral success of any political party since 1945. Their overall majority in the enlarged House of Commons, which now has 650 seats, is 144, with a total of 397 seats. However, despite their greatly enlarged majority, the Conservatives actually polled a smaller percentage of the overall vote. The Labour Party wound up with only 209 seats, its lowest number since 1935. The Alliance of the Liberal and Social Democratic parties won 23 seats.

Increasing division within the Labour Party as well as the formation of the Social Democratic Party with four Labour exministers in early 1981 contributed to Labour's election loss. Another contributing factor was Labour's election manifesto, which primarily stressed unilateral nuclear disarmament and U.K. withdrawal from the EEC - issues that aroused much popular opposition. As a result of the defeat, the party's leader, Michael Foot, will formally resign his post next October.

The Alliance secured a sizeable share of the electoral vote, slightly more than 25%, but obtained only 3.5% of the total number of parliamentary seats. To many observers, this imbalance highlights an anomaly in the British electoral system and gives added impetus to the Alliance's campaign for a reform and the introduction of a system of proportional representation.

Parliament reassembles on June 22 for the Queen's Speech, in which the government's legislative program for the next session of Parliament will be set out. This program is expected to be centered on trade union reforms (with secret ballots for electing union officials) as well as on the reorganization of local governments (including the abolition of metropolitan authorities, such as the Greater London Council). Also, the Budget proposals that had to be dropped before the election will be reintroduced.

France: Cabinet Approves Bankruptcy Law Reform Bill

The French cabinet has approved draft legislation seeking to reform the existing bankruptcy law, which dates from 1967 and, in its present form, is deemed inadequate to deal with the mounting number of business failures. The number of bankruptcies in France has risen from 11,000 in 1972 to over 20,000 last year, and the initiation of bankruptcy proceedings is now leading to complete liquidation in 85% of all cases. Also, creditors normally do not recover more than 10% of the outstanding debt.

Initiated by Justice Minister Robert Badinter, the reform bill, which would take effect in 1985, lays special emphasis on preventive measures and on protecting the interests of employees. Beginning with the start of the *règlement judiciaire*, the formal proceedings, the law would allow the owners of an insolvent business a period of three months to clarify the company's financial situation. Under certain circumstances, this period could be extended to one year. During this time, the management would remain in charge, while a court-appointed *administrateur* would draw up a financial and a social balance sheet. Both the employees and the creditors would have consultation rights during this process. (A simplified procedure would apply to businesses with fewer than 20 employees or less than FF 10 million in annual turnover.)

On the basis of the balance sheet figures and the consultations, the management and the administrator would work out a rescue plan, provided there was a good chance that liquidation could be averted. The plan would include a financial and a social component, and its aim would be to have the company maintain its operations and protect the workplaces to the greatest extent possible. The plan would require the approval of the commercial court and allow the business to continue either with the existing owners or under new ownership.

The law would abolish the dual function of the bankruptcy administrator (in effect, receiver and liquidator combined), on whose judgment it usually depends whether or not the court will declare a business bankrupt. At present, in the event of bankruptcy, the bankruptcy administrator *(syndic)* receives a percentage of the remaining assets as his fee; in the event of continuance, he merely receives a percentage of turnover. Under these circumstances, business leaders say, the *syndic* often can have no interest in helping to prevent liquidation. Under the law, the *syndic* would be replaced by two new professions - the court-appointed administrator and the commissioned liquidator.

Contrary to present practice, the law would shift the burden of proof to the creditors in cases of suspected intentional, fraudulent bankruptcy, which would be the only type of bankruptcy prosecuted under penal law.

Paris Details FF 4 Billion in Social Insurance Savings

Pierre Bêrégovoy, the French social affairs minister, has now detailed the social insurance savings, totaling FF 4 billion, which are to help cover this year's projected social insurance deficit of approximately FF 13 billion. As previously reported, the largest part of the shortfall is being covered by a special levy of 1% on taxable incomes.

Of the FF 4 billion, some FF 1.3 billion in savings is to be achieved through lower cost reimbursements for certain drugs and medical services, including eyeglasses, orthopedic items and services, and X-ray services. Another FF 1 billion is to be saved by lowering the annual rise in hospitalization costs from the present 15.8% to 14%. Also, the government will no longer permit the provision of long-term, no-interest loans extended to the hospitals by the health insurance funds; in the future, the hospital administrations will have to raise additional funds by turning to the Caisse des Dépôts, the financial institution for the local governments. Pharmacists will have to contribute 4% of earnings to the social insurance system; this "one time" contribution had already been introduced last year. Finally, the general 2% price increase for drugs, originally approved for July 1, will now be postponed until Oct. 1.

In addition to the special 1% levy, the government earlier had also decided on raising tobacco and alcohol taxes to obtain additional revenues of FF 3 billion this year and FF 5 billion in 1984 for the social insurance system. However, these planned increases might be opposed by the EC Commission.

Belgium: Martens Given Extended Emergency Powers

By a vote of 112-90, the Belgian parliament on June 12 approved new economic emergency powers until the end of this year for the Christian Democrat-Liberal coalition government of Prime Minister Wilfried Martens. The decision gives Martens the political freedom of action to impose important economic and social welfare measures by decree, without having to go to Parliament. The authorization constitutes in effect an extension of the emergency powers that enabled the government to issue no less than 152 decrees last year. Only with the help of these broad powers, Martens argues, is it possible to lay the foundation for an economic recovery and improve the competitiveness of industry (see following story).

As political observers have pointed out, it is not Martens's intention to bypass the Socialist opposition in enacting new legislation but to sidestep some of the problems arising from the conflict between the Flemish and Walloon regions, which also reach into his own coalition government. These disputes involve such issues as the steel industry crisis, the dire financial situation of Belgium's municipalities, and the extent of regional autonomy. The government wants to use the new powers to wield a free hand to reduce the state budget deficit by some BF 200 billion by 1985, the end of the current legislative period. Additional priorities are employment measures and a reform of the social welfare system.

Economy Emerging From 'Vicious Circle,' OECD Says

As a result of the government's determined austerity policy pursued since the beginning of 1982 as well as favorable international price developments, the Belgian economy is slowly starting to pull out of the "vicious circle" affecting it since the early 1970s, according to the OECD. In their latest annual survey of the Belgian economy, the OECD experts concede that it has cost, and is still costing, the Belgians dearly to enforce this belt-tightening regimen, but they describe these sacrifices as probably the only possible way toward a lasting recovery. The OECD urges the Belgian government not to let up in its efforts to reduce the public sector deficit, restore the cost competitiveness of domestic industry, and encourage wage and price restraint.

The Paris-based organization tempers its generally hopeful outlook, however, with a warning on unemployment, which remains among the highest in the entire OECD area of 24 member states: the jobless rate could continue rising to a high of 15% before beginning to level off next year. Inflation, on the other hand, is expected to decline, which would put Belgium "back in the group of countries with moderate inflation in 1984." The prediction is for 4% next year, compared with 7% in 1983 and 8.7% last year.

Economic growth in Belgium will be hampered by lagging domestic demand, according to the OECD, and thus expand only gradually in 1984, to about 1.5%. Private investment is likely to benefit from lower interest rates and improving profit margins, while public investment could continue to suffer because of the restrictive budget policy, the report says.

For Luxembourg, linked with Belgium in an economic union, the OECD sees banking as remaining an important growth sector, although it says that the rate of expansion is difficult to assess for the coming years. Last year, the survey says, banking again grew at a healthy rate, while industrial production dropped by 3.7% and building activity by 3.2%.

Portugal: Soares Plans Economic Emergency Program

Socialist leader Mario Soares was sworn in on June 9 as Portugal's new prime minister and immediately promised a national emergency program to deal with what he called a "catastrophic" economic situation. Observers expect strict austerity measures, including a devaluation of the escudo, tightened credit restrictions, and other measures to cope with the country's massive imbalance in foreign payments. Ernani Lopes, an economist and Portugal's former ambassador to the European Community, is the new finance minister; he is the only Independent represented in the cabinet.

Soares, who failed to gain an outright majority for his own Socialist party in the April elections, has formed a coalition of the center-left with the Social Democrats. The government controls 178 mandates in the 250-seat legislature, which is theoretically sufficient to override any presidential veto. The cabinet consists of nine Socialists, seven Social Democrats, and one Independent. Some observers expect the new government to last no more than a few months, however, and the Communist party, which did poorly in the elections, has sparked a round of labor unrest to support its claim that the coalition is condemned to failure.

The current economic situation in Portugal is dominated by pressing interest payments on the foreign debt, which totals $14 billion. Of this amount, $1.3 billion is due in the short term, and the outgoing government has pledged 18% of the nation's gold reserves in order to raise a $700 million loan from the Bank for International Settlements.

Norway: Willoch Forms Three-Party Majority Government

Following several weeks of intensive negotiations, the Norwegian premier, Kaare Willoch, has succeeded in forming a three-party center-right coalition cabinet which is expected to govern until the next elections in late 1985. The expanded government, holding 79 seats in the 155-seat Storting, essentially formalizes the situation already prevailing since the 1981 elections, in which the center parties have invariably supported Willoch's Conservative minority government in parliamentary votes. Although the two center parties that joined the cabinet have been given seven ministries out of a total of 18, the Conservatives remain in control of the key ministerial posts, including foreign affairs, defense, finance, and industry.

While no significant change in policy is expected in the immediate future, the next Norwegian budget may see some modification in tax policy and relaxation of the current austerity policy, in line with the calls for more economic expansion from the new government members. The 1% discount rate reduction, to 8%, announced by the central bank the day before the new cabinet was formed, is thought by Oslo observers to be a concession to the economic demands of the center parties.

EURO COMPANY SCENE

International Harvester Co. has agreed to sell two-thirds of its 37.5% equity in Holland's DAF Trucks NV, Eindhoven, to a Dutch consortium headed by Netherlands Investment Bank. The remainder is to be transferred to a trust. DAF, a manufacturer of heavy trucks, produced about 13,000 units last year and reported 1.63 billion guilders in revenues.

In related news, International Harvester's French subsidiary has applied to the French government for emergency help to overcome a "significant" cash shortage. The company has also asked its creditors for relief to prevent its defaulting on loan agreements. One report said that the subsidiary's problems have been mounting as a result of both the depressed farm equipment market and the French government's reluctance to authorize necessary work force reductions.

The United States' Hercules, Inc. and Italy's Montedison SpA have announced the establishment of a joint venture company for the production of 1.13 million tons annually of polypropylene. Involved are Hercules plants in Louisiana, Texas, Canada, and Belgium.

Common Market Reports

EUROMARKET NEWS

Issue No. 754 *June 28, 1983*

IN THIS ISSUE

Community: Revised Vredeling Draft Directive Submitted

The European Commission's revised draft directive on informing and consulting workers largely follows the numerous amendments recommended by the European Parliament. The latest draft represents a watered-down version of the measure first proposed in October 1980 by Henk Vredeling, the former Commissioner for labor and social affairs *(Common Market Reports, Par. 10,265)*. Presentation of the revised proposal had been held up by an internal dispute within the Commission over the statutory method of electing labor representatives who would be informed and consulted by management.

The measure would apply to subsidiaries established in the Community and controlled by parent companies employing at least 1,000 workers in the Common Market. In contrast to the original proposal, the revised draft no longer contains the requirement that subsidiaries with a minimum of 100 employees be subject to the information and consultation procedures; instead, there would be an optional lower limit that Member States could impose.

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The management of a parent company would be required to transmit general information about the group to its subsidiaries only once a year; the original draft would have required that the information be given twice a year. The scope of information to be transmitted would also be narrower. Although workers' representatives would still be entitled to general information, such as on the economic and financial situation and employment and investment prospects, they could no longer expect information on rationalization plans, manufacturing and working methods, or other plans and procedures likely to have a substantial effect on employees' interests. The latter requirement was dropped in line with the EP's recommendations. Furthermore, management would be entitled to withhold information that it considers secret, i.e., information that would substantially damage a company's interests if disclosed. The definition of what should be treated as secret is identical to what business executives had been demanding and what the EP demanded in its December opinion.

On the matter of consultation, the revised proposal retains the basic requirement set forth in the original draft: a parent company would have to inform its subsidiaries of any decision likely to affect the interests of its employees in the Community. However, there has been a reduction in the range of planned decisions that would oblige the management of the parent company to inform its subsidiaries, whose managers in turn would have to consult workers' representatives. Employee representatives would have to be consulted before any decision is taken that would have "serious" and not merely "substantial" consequences for employees.

Council Agrees on Bank Supervision Proposal

The Council of Ministers has reached agreement on the directive concerning the supervision of credit institutions. The measure, a follow-up to the 1977 directive on the establishment and operation of credit institutions, will require the Member States to supervise, on a consolidated basis, all credit institutions having a majority interest in other credit or financial institutions. Subsidiaries of banks established in other Member States will have to comply with the consolidated accounting laws of the parent bank's home State. Following formal adoption of the measure, the Member States will have two years to comply with the directive *(Common Market Reports, Par. 10,335)*.

A major aim of the directive is to protect individual savers and to preserve the stability of the international finance markets. The authorities in the parent bank's home State would be put in a position to obtain a broad picture of the financial dealings of both the parent bank and its Common Market subsidiaries. Commission officials believe that the directive will help prevent bank scandals like the one involving Banco Ambrosiano. The collapse last year of Italy's largest private bank, Milan-based Banco Ambrosiano, was mainly the result of uncontrolled activities of its subsidiaries, especially of the one in Luxembourg. The directive does not affect controls exercised by national authorities in the Member State where the subsidiary is incorporated; in fact, it will eliminate all legal obstacles that impede the exchange of information on banking operations between the Member States' authorities.

Banking experts are not so sure that application of the directive will prevent international banking scandals in the future. The directive merely stipulates the principle of compulsory consolidation and does not set forth detailed rules for supervision purposes. Most experts, however, believe that the directive will indeed facilitate controls over international financial markets.

In Brief...

On June 13, the Council of Ministers formally adopted the Seventh Directive on consolidated accounts. The directive requires the Member States to adapt their national laws governing the layout and content of financial statements of groups of affiliated companies according to the directive's provisions. The Member States must see to it that groups of companies start presenting their financial statements in the 1990 financial year, at the latest *(Common Market Reports, Par. 1407)* + + + The Council of Ministers has agreed on the directive concerning protection of workers exposed to asbestos. The measure seeks to reduce occupational hazards by establishing limits on the concentration of asbestos in the air at workplaces and by requiring medical checkups of workers even if they are exposed to low concentrations. Because of the impact of the directive on the national asbestos industries, the compliance requirement has been extended until Jan. 1, 1987; the provisions will not apply to asbestos mining until Jan. 1, 1990 + + + In the two-year-long legal fight between Germany's Klöckner-Werke AG and the EC Commission over the steel production quotas set by the latter, the German steelmaker has attained partial success: the Commission has reduced to DM 26.7 million the DM 49 million fine that it had imposed on Klöckner for overstepping the quota in the third quarter of 1981. With this reduction, the fines imposed on the company now total DM 166 million, down from the original DM 189 million.

Germany: Eased Work Time Restrictions for Juveniles

School leavers in Germany can expect improved chances of finding a job once the government's plans for relaxing working hour restrictions for juveniles materialize. A draft regulation requiring the consent of the Bundesrat, the upper house, would allow apprentices in butcher shops, textile plants, paper mills, hospitals, and at construction sites to start work at 6 AM. A planned amendment to the Law Protecting Juveniles in Employment would make it possible for apprentices to start in bakeries at 4 AM and in hotels and restaurants at 6 AM. Under current law, apprentices may not start work in bakeries before 5 AM and in hotels before 7 AM *(Doing Business in Europe, Par. 23,434).*

For years businessmen have been demanding a relaxation of the restrictions on apprentices' working hours. Their complaint is that the restrictions make it impossible in many instances to fully involve apprentices in the production process. Hotel managers, in particular, have been complaining for years about late starting hours for apprentices.

Government officials do not believe that the relaxed working hour restrictions will do much to lessen unemployment among young persons. Although industry leaders have promised to provide an additional 30,000 jobs for school leavers this year, in addition to the 690,000 already planned, the big question remains whether youngsters will take advantage of the improved job opportunities once the restrictions have been relaxed.

Employers' Association Changes Stand on Jobs Issue

A large German employers' association has broken ranks with its counterpart organizations over the united opposition of employers to job-sharing, flexible working hours, and reduced working time as a means of lowering unemployment. The association comprises over 50,000 employers in the metalworking industry (which provides jobs to around 4 million). It recently said that the collective bargaining partners should look into the possibilities offered by work hour reductions or job-sharing, in terms of reducing unemployment. This statement represents a departure from the previous categorical "No" to any suggestion in this direction.

The association qualifies its changed attitude by saying that, if management and the unions reach a consensus and the legal hurdles are removed, the management and the works councils of each enterprise should examine whether a reduction in working hours is feasible and reasonable and whether additional persons could be hired. There would have to be one stipulation, however, according to the association: employees working fewer hours would earn proportionately less.

The employers are diametrically opposed to what several unions, including the powerful metalworkers' union, have been demanding for years - less work with no reduction in pay. The idea of working less for the sake of putting unemployed persons into jobs has emerged only in the last two years. To support its stand against full compensation despite fewer working hours, the association cites a recent survey taken among young workers. Many employees would be prepared to accept a cut in income for fewer hours if this results in hiring unemployed persons and school leavers.

France: Industry Federation Chief Sounds Alarm

The president of the CNPF industrial federation (Patronat), Yvon Gattaz, has sounded the alarm over the dramatically worsening situation of private enterprise in France. In interviews with the business journal Les Echos and the newspaper Le Figaro, Gattaz appealed to the Socialist government to come up with an emergency plan to stop the mounting number of business failures in all industry branches, but especially in the construction and machine tool sectors. "Every day I see whole parts of our industries crack and collapse," Gattaz said. "Every day I witness the demise of businesses that used to be profitable. Every day I hear of shrinking order books."

The CNPF chief said that private enterprise in France is currently indebted to the tune of FF 1,300 million, with the interest burden exceeding earnings. Production costs, particularly wage costs, are rising at an intolerable rate, and the tax and social insurance burdens on businesses are about twice as high in France as in other major competitor countries. Gattaz criticized the Mitterrand government for forcing financially ailing companies to maintain their work force levels; this "exaggerated" protection against dismissals, he said, has hurt the employment situation rather than helped it and is, in fact, preventing new hirings. In the second half of 1982, Gattaz said, the number of employees, excluding workers in the agricultural sector, declined by 130,000, and this downturn is now continuing at an accelerated rate.

Gattaz also spoke out against the "forced expansion of union powers, the expanded number of civil servants, the proliferation of laws and regulations. There is too much bureaucracy in France, too much government, too many restrictions, and not enough freedom for businesses." He pointed to the example of the newly nationalized industrial groups, which used to distribute "good dividends" but which, for 1982, reported losses totaling FF 15 billion. Gattaz estimated the total losses of all state industries at more than FF 36 billion last year.

The Patronat president conceded that there are still many French businesses that continue to make healthy profits; however, the majority are doing "badly, very badly," he said. In general terms, Gattaz described the situation of the French business community today as "a few islands of prosperity in an ocean of difficulties and tragedies."

Greece: Assembly OKs Controversial 'Socialization' Law

The Greek parliament early this month passed government-sponsored legislation concerning the "socialization of enterprises in the public sector." In the terminology of the Papandreou administration, "socialization" means giving worker representatives and local authorities a greater say in the operation of state enterprises.

The new law has four articles, the last and most controversial of which lays down new rules concerning unions' strike votes. It stipulates that a strike call by a union must be supported by the majority of the union membership via secret balloting, whereas previously it sufficed for the majority of those attending a union assembly to vote for a strike.

Prior to the passage of the law, there had been a series of strikes and demonstrations against the proposed measure, and the Communist deputies walked out of the parliamentary session when the governing Socialists refused to change the contested provision. The political opposition and other critics charge that the actual purpose of the socialization law (and, specifically, the changed strike vote rule) is to enforce the government's unpopular wage curbs and other economic austerity measures. The public sector in Greece employs some 220,000 and accounts for about half of the country's gross national product.

The other three articles of the socialization law are concerned with the decentralization of the nationalized sectors, which include banks and insurers, hospitals, utilities, ports, transport and warehouse firms, postal and telecommunications facilities, radio and television stations, and some shipyards. The government wants to shift a measure of responsibility for these sectors to "supervisory boards" composed of representatives of both the central and regional governments, the management, and the employees. The first of these boards is to be set up for four mining companies on the island of Euboea.

Britain: Lowest Rate of Inflation in 15 Years

The annual rate of inflation in the U.K. has again fallen and now stands at its lowest level in 15 years. In the 12 months to May, prices rose by only 3.7%, which represents the smallest increase since March 1968. The 3.7% figure is lower than that of all the principal West European countries, with the exception of Germany.

Employment Secretary Norman Tebbit welcomed this development as a "notable achievement," pointing out that inflation in the U.K. is now rising more slowly than in the U.S. and by less than half the rate for Europe as a whole. Tebbit predicted that the British rate of inflation would go up slightly later this year but said that progress had been better than had been anticipated in the Budget last March. There is no reason, he said, why inflation should not remain within the predicted 6% at the end of 1983.

Over the same period, average earnings in the U.K. have risen by 7.25%, almost twice the inflation rate, resulting in a marked improvement in living standards. However, any long-term continuation of slow price expansion will depend heavily on moderation in wage demands. On this point, most observers are pessimistic, since union demands in the next wage round are expected to be significantly higher than the inflation rate.

U.K. Accountants Push for Eased Advertising Rules

The annual conference this year of the U.K. Institute of Chartered Accountants, to be held in Cambridge in mid-July, will feature a somewhat new style: instead of the customary, rather technical, debates, the Institute is arranging more controversial discussions about professional matters.

British accountants are becoming increasingly concerned about the way their traditional preserves are being encroached upon and particularly about the means for circumventing the traditional prohibitions on advertising. Accordingly, one of the topics to be debated is "Advertising in the Profession," which will precede a discussion paper on the subject to be issued jointly by the principal U.K. accounting bodies. This document will advocate a widespread relaxation of the rules on the publication of accounting services, so that most forms of advertising would be permissible. While comparative claims would be allowed, touting (soliciting) for business would not.

Observers believe that the proposed changes will be welcomed in the profession, which regards the current regulations as too restrictive.

Italy: Restructuring of Home Electronics Industry

A plan for the restructuring of the Italian home electronics industry has been accepted by the government's interministerial committee for economic policy in Rome. Implementation of the project is likely to be accompanied by the imposition of quotas on imports of foreign television sets, in line with EEC norms. Rationalization of the TV industry will involve the loss of 7,000 jobs in enterprises which at present employ 16,600 workers.

A new company will be established to manufacture TV sets, with a target of 700,000 color and 100,000 black-and-white sets annually by 1987. The shareholders of the company will be REL, a state holding, with a 45.8% stake, Zanussi (43.4%), and Indesit (10.8%).

A total of 250 billion lire is to be spent on the program, and several foreign companies will assist in rationalizing the rest of the industry. Philips will help with the reorganization of the car radio producer Autovox, ITT will provide its video know-how to Voxson, and Europhon is to become involved in the manufacture of compact discs.

Spain: Tough Industrial Restructuring Plan Published

A draft plan for industrial restructuring published by the Spanish ministry for industry and energy could mean the loss of up to 200,000 jobs in an economy where 2.4 million (17.2% of the labor force) are already without work. The plan, presented in the form of a 240-page White Paper, still has to be discussed with representatives of the trade unions, bankers, and industrialists, but the Socialist government has threatened that if there is no agreement within one month it will implement the program anyway.

The White Paper calls for the elimination of 65,000 workplaces in 11 industrial sectors, equivalent to 24% of present employment in these industries. The textile industry would be hit the hardest, with 41,000 jobs lost. Most economists, however, multiply the figures by a factor of 2.5 or 3 to take account of the effect of dismissals in auxiliary industries, which would increase the total impact of the plan to 200,000 jobs lost. The government disputes this approach and claims that the reduction in employment will have no effect on production levels and therefore will leave auxiliary industries unaffected.

The plan calls for an annual investment of 100-150 billion pesetas to be funneled into the industries affected, and the White Paper warns that both savings and commercial banks may be forced to set aside a part of their deposits for restructuring investments. The banks already have to set aside 23% of deposits for obligatory investments and public funds.

Opposition leaders of the political left and right are pointing to the plan as evidence that the government is reneging on its election promise last year to create 800,000 new jobs within four years. Industry Minister Carlos Solchaga himself admits that this seems like an impossible goal. The socialist General Union of Workers has reacted by warning that the industrial restructuring plan "breaks the basic principles of negotiation."

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Reducing Automotive Exhausts; Unleaded Fuel

On June 16, the Council of Ministers agreed on a directive to lower auto exhaust emissions of carbon monoxide, unburned hydrocarbons, and nitrogen oxide by 20-30% by 1985. It was the fourth such reduction decreed by the Council in the last ten years *(Common Market Reports, Par. 3371.06)*. Automobile manufacturers will have to make engine ignition and carburetor adjustments. Compliance with the stricter standards is expected to increase fuel consumption by up to 5%.

Opposition from France and Italy prevented the Council from reaching a policy decision on the use of unleaded gasoline. French and Italian car manufacturers are concerned about the additional cost of redesigning engines (around $500 per unit). The European Parliament last month called for action on unleaded gas, demanding that all Member States reduce lead content to a maximum 0.15 grams per liter of gasoline by 1985 *(Common Market Reports, Par. 3315.29)* and that unleaded gasoline be made available as soon as possible.

Actions in two Member States are underlining the need for

This issue is in two parts. This is Part I.

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an agreement in principle on the issue of unleaded gas. Britain's government announced last May that all new cars in the U.K. will have to run on lead-free gas by 1990, provided that the other Member States follow suit. Germany's upper house of Parliament has introduced legislation that, as of 1985, would encourage the use of unleaded gasoline by cutting the federal excise tax by DM 0.05 on each liter sold. A majority of the upper house believes that Germany should move ahead on its own if no Community-wide agreement can be reached.

While the British government's announcement of the 1990 deadline resulted primarily from concern that lead poses serious dangers to human health, the move of Germany's upper house was prompted largely by the extent to which automotive exhausts are responsible for forest blight. The Kohl administration is opposed to the upper house's bill, however.

In Brief...

The European Commission is expected to reach a formal decision before the end of the year in its antitrust case against International Business Machines Corp. Last month's three-day hearing of arguments by IBM lawyers and executives revealed no new aspects in the case, which dates back to 1974 *(Common Market Reports, Pars. 8708, 10,326)*. The EC Executive accused IBM of abusing its dominant position in the Common Market by refusing to sell customers software for use with non-IBM computers. There had been reports that the Commission had proposed a settlement. What now appears more likely is that the EC Executive might modify its original charges but, nevertheless, impose a fine and order IBM to stop the restrictive practice, which is considered incompatible with Treaty Article 86. Before reaching a formal decision, the Commission must consult the antitrust committee, made up of national experts on competition matters + + France will face legal action before the European Court of Justice unless the French government revokes the one-year extension of state aids to textile manufacturers. These aids, which in the Commission's opinion violate Treaty Article 92, consist of the French government's paying part of the employers' social security taxes. Last January the Commission banned the aid system, which was introduced in March 1982 and extended on June 7 until March 1, 1984.

Britain: Shortened Finance Bill to Reflect Tax Changes

The reelected U.K. Conservative government will soon introduce a shortened Finance Bill to give effect to the various tax changes and reductions proposed in the Budget in March, which the Labour Party refused to endorse before the dissolution of Parliament in May. As indicated in the Queen's Speech, the government policy address presented at the opening session of Parliament, there are to be 15 further bills, of which five have been revived from the last session, since there was insufficient time to secure their approval before the election. These bills include the Data Protection Bill, to protect personal information held in computers, and a measure to return British Telecom to private ownership.

The bill considered the most controversial is that giving trade union members "greater control" over their unions. The proposal will broadly follow the lines of an earlier discussion document, "Democracy in Trade Unions," and will involve compulsory ballots for the election of the governing councils of trade unions as well as for strike actions. The government also wants to consult with trade unions on the introduction of new legislation to ban strikes in some essential services, but this proposal has so far met with union opposition.

Another measure to be introduced is the Cable Bill, which will allow the expansion of cable television and will create an agency to authorize franchises and also act as a policing body.

The rating system on property is to be improved, and there will be a selective plan "to curb excessive rate increases" by individual local authorities. This move will be particularly welcomed by industry, which has been complaining increasingly about the disproportionate burden that it has to bear. Also, further development of U.K. oil and gas resources will be encouraged, and legislation will be introduced to abolish royalties in new offshore fields.

In general terms, the government said that it would work in close cooperation with other governments and international institutions to promote international recovery "on a non-inflationary basis." It would also urge the need to preserve and strengthen an open world trading system. A further reduction in domestic inflation would be sought, and the government would continue to "maintain firm control" of public expenditure as well as a responsible financial strategy "based upon sound money and lower public borrowing."

Germany: Incentives to Encourage Aliens' Departure

The German government has proposed legislation offering financial incentives to aliens from non-EEC Member States in order to encourage them to return to their home countries. Under the bill, third-country nationals who lose their jobs after Oct. 1 or who have been on short-time work for more than half a year and leave Germany before June 30, 1984, would be entitled to DM 10,500 plus DM 1,500 for each child. This premium would be reduced if the unemployed alien delayed his departure while collecting unemployment benefits. Any alien, employed or unemployed, who leaves Germany would get back his contributions to the old-age pension fund without having to wait until the end of the statutory two-year period.

Labor Minister Norbert Blüm estimates that 15,000-20,000 non-EEC nationals will take up the offer of the cash premium. Since Turks, Yugoslavs, Spaniards, and Portuguese represent the largest group of aliens from non-EEC countries, Blüm believes that 90% of the returnees will come from these countries. Should 20,000 unemployed aliens decide to go home, the government would have to pay around DM 220 million but would save an estimated DM 320 million in unemployment benefits and children's allowances.

Government officials estimate that 55,000-85,000 aliens, mostly Turks and Portuguese, will take advantage of the offer to recover their old-age pension contributions. These refunds could be as high as DM 8,000 per person. Turks and Portuguese were among the first aliens to be admitted to Germany as part of the labor recruitment campaigns in the 1960s, and thus many among them have been covered a long time *(Doing Business in Europe, Par. 23,465).* Government officials say that the old-age insurance funds would incur a loss of around DM 680 million if 85,000 aliens decide to accept the offer. But this short-term loss would be more than offset by the long-range gain of an estimated DM 2-2.5 billion in old-age pensions that the funds would save.

France: 7% Spending Rise Limit in 1984 Draft Budget

The French economics, finance and budget minister, Jacques Delors, has outlined what President François Mitterrand called a "courageous" draft budget for 1984. The draft limits the increase in public expenditure to 7% and the budget deficit to 3% of GNP. The 7% target, Delors told his cabinet colleagues, compares with 27.7% in 1982, the Socialist government's first year, and with a probable 11.7% this year.

Delors believes the 1984 budget assumptions to be realistic inasmuch as they are predicated on a very gradual economic upswing, a high dollar exchange rate, and oil prices that will decline no further. While Delors has not yet fixed the spending ceilings of the individual government departments, he wants to limit the rise of public sector wages and salaries to 5.8% on the average, which corresponds to the hoped-for inflation rate for 1984.

In order to hold the budget deficit at 3% of GNP, Delors would have to restrict public spending to FF 125 billion next year. No details have been revealed of the income side of the budget ledger, but it can be safely assumed that fiscal revenues will suffer as a result of weak economic growth (0.5-1%) next year. Given its own low inflation target, the administration will find it difficult to raise indirect taxation. The same goes for virtually all other types of taxes: the extremely poor profit picture of French businesses practically rules out higher corporate taxes, and President Mitterrand himself has publicly disclaimed any further increases in personal income tax and social insurance contributions. The present burden of 44% on personal incomes is not to be exceeded, he said recently.

Next to the problem of how to cover next year's regular budget deficit, the administration is facing a growing gap in the financing of the national social insurance system, specifically the unemployment insurance fund. By the end of 1984, the number of unemployed in France is expected to rise from the present 2 million to 2.2-2.4 million, which would raise the fund's shortfall from an anticipated FF 12 billion total in the 1982-83 two-year period to FF 14 billion in 1984 alone.

In related news, the French government has been forced to revise virtually all of its earlier optimistic projections on the development of the domestic economy in 1983. Delors now expects zero growth this year and a 1% growth rate in 1984. He says that investment will probably decline by 2.1% this year, while private consumption is expected to rise by only 0.8% and exports by only 2.5%. Last October, in presenting the 1983 budget, Delors had projected increases of 2% for GNP, 0.8% for investments, 1.6% for private consumption, and 5.3% for exports. A more positive development is now expected only for imports, which are expected to decline by 0.1%, compared with the previous estimate of a 3.8% gain. Delors said the results for this year will be strongly influenced by the stability program of last March, with which the government hopes to achieve a better balance of French foreign trade.

Five-Year Wealth Tax Exemption for Americans

In a statement dated June 14, the French Finance Ministry announced that American residents in France will be granted a five-year exemption from the wealth tax. The announcement was based on an agreement negotiated between the Finance Ministry and the U.S. Treasury Department. The exemption covers the five-year period beginning on Jan. 1 following the year in which a U.S. citizen establishes residence in France; it will be applied retroactively to Jan. 1, 1982, the date when the wealth tax took effect.

As previously reported, the wealth tax covers the worldwide net assets of all French residents, citizens or foreigners, beginning with a rate of 0.5% on a minimum wealth of FF 3.2 million. The highest rate of 1.5% applies to assets exceeding FF 10.6 million *(Doing Business in Europe, Par. 22,870)*. The negotiations between Washington and Paris started last January, with the U.S. government responding to complaints by American business executives and wealthy individuals in France. It was reported that numerous U.S. citizens in France had changed their legal residence, or would do so, in order to escape the tax.

Denmark: Supreme Court Upholds Glistrup's Conviction

The Danish anti-tax movement leader Mogens Glistrup will have to serve a three-year prison term and pay a DKr 1 million fine following a nine-year succession of trials and appeals on charges of tax evasion. The Danish supreme court has now upheld Glistrup's conviction but reduced the sentence imposed by a lower court by one year and the fine by DKr 4 million. Observers agree that the decision will effectively end the political career of the maverick lawyer who founded Denmark's Progress Party, which campaigns for the abolition of income tax and currently holds 16 seats in the 179-member parliament. (Ten years ago, however, the party had held 28 seats and was the second largest after the Social Democrats.)

Glistrup, 57, has vowed that he will continue to influence the party while imprisoned; he also wants to take his case to the European Human Rights Commission. The DKr 5 million bill for legal fees and court costs as well as the DKr 1 million fine are thought to exceed Glistrup's financial resources; as a result, he may have to spend extra time in prison.

As the head of Denmark's largest law practice, Glistrup in the early 1970s built a large-scale tax evasion system by creating a complicated network of more than 2,700 corporations having extensive debt transactions between each other. This system served to assure Glistrup and his clientele interest relief on practically all tax liabilities. The courts decided, however, that the corporations existed only on paper for the sole purpose of tax evasion.

Glistrup has been debarred, for the time being, and Parliament has started proceedings to declare his political mandate vacant.

Italy: Bitter Election Defeat for Christian Democrats

The Italian business community reacted with shock and the Milan stock exchange with panic selling to the news that the ruling Christian Democrats had suffered a stunning defeat in the parliamentary elections of June 26-27. The Democrazia Cristiana (DC), which has dominated the Italian governments for some 40 years, lost nearly six points of its previous 38.3% share of the vote, dropping to 32.4%. This is the worst result in the history of the party, which, nevertheless, remains Italy's largest political force. The five parties of the previous government coalition (DC, Socialists, Social Democrats, Liberals, and Republicans) together won 56.4% of the vote and thus lost only 0.4% in comparison with the 1979 election results. The losses of the DC were nearly offset by the gains of the other four parties, so that the coalition would continue to have an absolute majority in both the lower house and the senate.

The Communists fell back only slightly, to 29.9%, from the 30.4% achieved in 1979, narrowing the gap between themselves and the leading DC. However, the party was not able to capture any of the votes lost by the Christian Democrats.

The DC's defeat, by 5.4% in the Chamber of Deputies and by 5.9% in the Senate, came as a big surprise to virtually everyone. Such a setback had not been indicated in any of the polls, and there was no ready explanation other than that many voters are displeased with the performance of the country's political leadership and that many DC supporters did not bother to go to the polls.

Political observers said it seems certain that the five partners in the previous government will again try to negotiate a coalition. As in the past, the Christian Democrats are not expected to invite the Communists to join the government, and it is not likely that a government can be formed without the DC. The election result apparently foiled the bid of Socialist leader Bettino Craxi for the premiership: Craxi, who was responsible for the breakup of the previous coalition and the call for early elections, had hoped to gain 4-5 percentage points for the Socialists. As it turned out, the Socialists improved their share of the vote by only 1.6%.

Switzerland: Revision of Stock Corporation Law

After about 20 years of preparation, the Swiss federal government has completed the draft revision of the stock corporation law *(Aktienrecht)* and submitted it to a parliamentary committee. Although the revised law is not to take effect before 1988, existing Swiss stock corporations and foreign investors planning to establish such corporations in Switzerland in the coming years would have to take account of the changed rules in the interim period.

Whereas Swiss stock corporation law so far has been mainly laid out to safeguard the interests of the enterprise itself, future law would lay greater emphasis on the protection of shareholders' interests. Of some 110,000 stock corporations registered in Switzerland, a very large number operate with the minimum capital of SF 50,000 *(Doing Business in Europe, Par. 29,215)*. In the future, the minimum capital requirement would be SF 100,000, and half of that sum would have to be fully paid in. The lowest nominal value of shares of stock would remain at SF 100 per share.

One new aspect would be the concept of "authorized capital," as patterned on German law. Under this concept, the shareholders' meeting may authorize the board of directors to implement a capital increase, leaving the volume and timing of such an increase to the full discretion of the board. This authorization would be good for a period of five years, and the resultant capital increase could not exceed half of the previous capital. Authorized capital could be raised by both quoted and nonquoted companies.

One controversial aspect of the law's revision is the extent of discretion a corporation has with regard to hidden reserves. The formation of such reserves would continue to be allowed, but in the future the company would have to inform its shareholders, in an addendum to the balance sheet, of the extent to which hidden reserves were used to cover losses during a calendar year. Also patterned on German law, the new rules furthermore would require the drawing up of group balance sheets and would broaden publicity requirements. Financial observers said that some 1,000 Swiss stock corporations would become subject to the stiffer publicity rules.

Portugal: Soares Submits Austerity Plan; Escudo Devaluation

An economic austerity program presented by Premier Mario Soares, the head of the new Portuguese center-left coalition government of Socialists and Social Democrats, has been accepted by the National Assembly by a vote of 161 to 67. The four-year plan started off with an immediate 12% devaluation of the escudo and price increases of between 15% and 40% for basic foodstuffs, fertilizers, and animal feed. The devaluation is the second this year and the fifth since 1980. In addition, the escudo is regularly devalued by 1% per month under a crawling-peg system.

A principal target of the program over the next 18 months is to reduce the country's payments deficit, which reached $3.3 billion in 1982, and, eventually, the accumulated foreign debt of $13 billion. Food imports are a substantial cause of the problem (over half of Portugal's food supplies are imported), even though 60% of the national work force is employed in agriculture.

The government's further plans include the imposition of a 10% tax on some company expenses, such as for meals and travel, and a 5% special profits tax. Lisbon also intends to review public investment spending and to return the nationalized banking and insurance sector to private ownership. The program seeks to encourage private investment and help prepare the Portuguese economy for the day when the country joins the European Common Market.

Observers in Lisbon commented that an important factor in the speedy implementation of the austerity program may be the preparations for renewed negotiations with the International Monetary Fund for additional financial assistance. Portugal recently negotiated two short-term loans totaling $700 million with the Bank for International Settlements, using gold reserves as collateral.

Common Market Reports

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IN THIS ISSUE

Community: Pushing for Extended Steel Quotas, Cutbacks

The Council of Ministers has only a few weeks to decide whether to extend or change the Community's steel production quota system. On June 20, the Council merely extended the system from June 30 to July 25 in order to give the Commission the time needed to decide where and how much more capacity should be cut. (The EC Executive has, in the meantime, made its decision.) A Council meeting is scheduled for July 25.

What makes reaching an agreement so difficult are the political and economic implications of the Commission's proposals. The Commission has not only asked for a two and a half year extension of the rules until the end of 1985, but it has also proposed a reduction in steel production capacity of 30-35 million metric tons a year, based on 1980 levels. This drastic cut, considered a necessity by virtually all experts, would mean that some 100,000 steelworkers would lose their jobs by 1986. (Some 125,000 jobs were already lost in the last four years.)

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Commission officials do not see improved chances for an upturn in demand before the end of this year, and they say that future demand will continue to fall short of what would be needed to allow the steel mills to operate at reasonable profits. Although there is agreement among Member State governments that the quotas should be extended, views differ on the allotment of quotas for each individual State. Lengthy negotiations with the Commission have so far resulted in agreed capacity cuts of only 18 million tons. The situation is complicated by the Council's commitment to phase out national aids to the steelmakers by the end of 1985.

In its plan announced on June 30, the Commission has asked for 8.7 million additional tons in production cuts in order to attain its objective of reducing steel output capacity by 30-35 million tons. (A further 3.3 million tons will have to be "saved" through international cooperation.) The plan reflects the Commission's philosophy that cutbacks should be attained by closing down the oldest, least efficient, and most heavily subsidized steel mills. It puts the greatest pressure on Belgium and Italy, where steels mills are generally most outmoded and receive the largest subsidies in the Community. However, for the sake of solidarity, the Commission has also proposed additional production cutbacks by the more efficient and less subsidized German, Dutch, and Luxembourg steel mills.

So far all reactions from the Member State governments and the national steel industry associations have been negative. Nevertheless, Commission officials count on the cooperation of most national steel executives because, they say, there are no other alternatives.

Commission Recommends Tax Relief to Boost Investment

The Commission is urging the Member State governments to change their tax laws in order to improve investment incentives and corporate finances, especially at a time when unemployment in the Community is high (11.6 million in May). A lasting revival of the national economies can be achieved only if additional investments are made on a large scale, in the Commission's view.

The EC Executive says that taxation of profits that have risen merely as a result of inflation is detrimental to the restoration of business working capital and thus has a dampening effect on investments. The Commission recommends instead a number of indirect measures that could help relieve the tax burden on businesses. Governments should attempt to lower the taxes not linked to profits - the net worth tax, for example. Allowing businesses to carry losses back or forward would have a favorable effect, the Commission says, advising the national governments to seek legislation allowing carry-backs of at least two years and indefinite loss carry-forwards.

Aside from suggesting reforms of the tax systems, especially in Greece, Ireland, and Italy, the Commission also urges efforts to stimulate investment by improving the self-financing capabilities and resources of businesses. One way suggested by the Commission would be a change in depreciation rules to allow for the effects of inflation. Further efforts are also needed to channel savings into investments by improving the operations of the capital markets, the Commission says, adding that greater transparency of company accounts would be a worthwhile goal.

In Brief...

France and Germany have found a way of settling their dispute over national standards that have hampered sales of products in each other's territories. The French government had accused Germany of erecting or maintaining obstacles to intra-EEC trade in violation of Treaty Article 30. Bonn's position was that these standards were introduced and enforced for safety reasons by TÜV, the German testing agency. Under the recently reached agreement, both countries would recognize each other's standards. Both intend to establish liaison offices which would help improve contacts between manufacturers at home and testing agencies abroad. The testing organizations would be empowered to issue certificates attesting to a product's conformity to the other nation's standards + + + Progress is being reported on an important piece of EEC consumer protection legislation which has been controversial since its presentation in 1979 and has been stalled in the European Parliament for four years. The Commission has agreed with all but one of the recommendations made by the EP for the consumer credit draft directive. Basically, the measure would require Member States to enact or amend existing national rules committing credit institutions to truth in lending. Commissioner Karl-Heinz Narjes told the EP that, for legal reasons, he could not go along with the suggestion that the Commission be given the power to establish the effective interest rates by decision; he said the uniform method of arriving at a rate would have to be established by a separate directive *(Common Market Reports, Par. 10,125)*.

Germany: Several Changes in Tax Bill Sent to Parliament

The tax bill that the German government has proposed to Parliament, along with the 1984 draft budget (see following story), differs in several respects from the first draft agreed on last May. Business taxpayers could count on an increased exemption from net worth tax, but this exemption would amount to only DM 125,000 instead of the DM 200,000 originally planned. (The current exemption is DM 20,000 - *Doing Business in Europe, Par. 23,361A*).

The first draft had failed to include a definition as to what should constitute a small or medium-sized business entitled to tax relief; such a definition is now included. A small or medium-sized business would be entitled to the 10% special depreciation allowance for new, movable assets if its assessed property value does not exceed DM 120,000 or its statutory capital is less than DM 500,000. The concept of qualifying assets has been expanded, however, to include passenger cars, so long as these are used exclusively, or almost exclusively (more than 90%), for business purposes.

The biggest difference between the new bill and the original draft concerns the liberal professions. Physicians, lawyers, architects, and certified accountants would be included among the taxpayers who would pay less net worth tax and qualify for the one-time special depreciation allowance under the government's program of cutting business taxes. For example, a physician who buys a new car to use it in the exercise of his profession could claim the 10% special deduction, on top of the regular depreciation rates for automobiles.

Bonn's 1984 Draft Budget Projects 1.8% Spending Rise

The German government's 1984 draft budget, approved by the Kohl administration on June 29, provides for federal expenditure to rise by only 1.8% (to DM 257.8 billion), one of the lowest rates of increase in many years. The DM 6.5 billion in projected budget savings would affect mainly the public service and unemployment and social security benefits. Because of anticipated higher tax revenues, estimated to reach DM 200.8 billion (plus 6.8%, compared with 1983 projections), the public sector borrowing requirement can be limited to DM 37.3 billion. By 1987, the government hopes to have the budget consolidation carried to the point where the PSBR is reduced to DM 22.5 billion.

For Finance Minister Gerhard Stoltenberg, the task of trimming the budget deficits to acceptable levels remains the No. 1 priority. For 1984, Stoltenberg has once more included substantial central bank "profits" under the revenue heading; in future years, however, the Bundesbank's budget contribution is again to be reduced to the accustomed amount of DM 2 billion per year, from DM 6.5 billion in 1984. To achieve its medium-term target of limiting annual borrowing to DM 22.5 billion, the government thus needs to find additional ways of cutting down spending. The overall aim is to reduce expenditure growth to 2.9% on the annual average, while achieving revenue increases of 6.5%.

The necessity of further budget consolidation is reflected in the government's high interest burden, which is expected to rise by 6.4%, to DM 32.7 billion in 1984. In fact, the share of debt servicing in the overall expenditure volume will remain at about 13% until 1987, which severely restricts Stoltenberg's maneuvering room. For instance, despite the substantial cutbacks planned for the social welfare sector, the budget of that department would still account for nearly 25% of the total.

Britain: Slow Initial Response to Job Sharing Program

The U.K. government has expressed disappointment over the initial response to its job sharing program, which was inaugurated last January. The Department of Employment has so far been able to approve only 250 applications, although the program makes provision for at least 50,000 jobs to be split.

The government's intention is that those who are unemployed, or about to be laid off, should at least have the opportunity of part-time employment. An advertising campaign to promote the program has had a definite impact, according to the Department, resulting in a large number of inquiries from both employers and those seeking work.

In commenting on the relatively small number of approved applications, the Department said it apparently "takes time" for employers to identify the kind of work that lends itself to job sharing. It was emphasized that the program is voluntary and that workers have a right to refuse job sharing. The Department described the program as only one of several experiments to find additional employment, and while an immediate rush to job splitting had not been expected, there should be at least a gradual buildup.

Under the program, employers receive a grant of £750 for each full-time job that is split into two. Many employers have complained that the one-month time limit on finding, interviewing, and hiring a suitable candidate is too short. They also complain that the choice of applicants is too restricted and could force them to recruit employees with lesser qualifications than normally sought. In response to these criticisms, the Employment Department said it has instructed regional offices to use their discretion and to be reasonably flexible in considering each case on its merits. However, it was stressed that the one-month time limit is necessary to ensure that the shared job is "viable." If, for example, a vacancy has existed for nine months, then it would be questionable whether the offered job is really genuine.

The Trades Union Congress has been critical of the program, charging that it is the government's way of "white-washing" the unemployment figures. The TUC believes that unscrupulous employers can use the program to deprive job sharers of their employment protection rights, while at the same time qualifying for the grants.

France: Employers Protest Latest Labor Cost Increases

The French national employers' federation CNPF (Patronat) has withdrawn from the administrative board of Unedic, the national unemployment insurance fund, to protest a series of social insurance measures decided by the government on June 29. Patronat spokesmen said the employers will refuse to participate in the administration of Unedic until such time as a new way is found to ensure the sound financing of the system. The fund is expected to incur a deficit of about FF 12 billion by the end of 1983, and the latest revenue-raising measures will cover not even 50% of this shortfall, according to the Patronat *(Doing Business in Europe, Par. 40,487)*.

The cabinet decision of June 29 involves an increase in Unedic contributions by one point to an overall 4.08%, of which the employers must finance 60% *(Doing Business in Europe, Par. 22,833)*. Also raised was the assessment ceiling for social insurance contributions generally: it went up by 6.2%, to FF 7,870 of monthly pay.

The government furthermore increased the legal minimum wage (SMIC) by 1.1%, to FF 3,794 per month, as of July 1. The increment is supposed to cover the effects of inflation through last May as well as the latest rise in unemployment insurance contributions. Thus, the SMIC boost does not represent an increase in real-term wages - a point emphasized by the labor unions, which consider the increase completely insufficient.

The Patronat estimates that the total of all increases will, nevertheless, raise employers' labor costs by about FF 8 billion, and it has demanded that this additional burden be offset by a corresponding reduction in social security contributions. The employers' federation warns that the government is going too far with its measures, thereby risking an amplification of "the considerable difficulties of the French economy."

The latest decisions supplement previously decreed austerity measures, including the 10% surcharge on 1982 income taxes (for which payment was due on July 1) and a 1% levy on social security contributions by all taxpayers.

Belgium: Government Submits Steel Plan to EC Commission

The Belgian government has submitted to the European Commission its plan for the restructuring of the country's ailing steel industry. The plan, in the form of a letter signed by Economics Minister Mark Eyskens, proposes a production capacity reduction at Cockerill-Sambre, Belgium's principal steel group, from the current 6.3 million metric tons annually to 5.3 million tons by 1985. This reduction would fall well short of the 1.7 million ton cutback that the Commission considers to be realistic. The government points out, however, that the 5.3 million ton goal would be about 60% below the production level of the year 1980. Eyskens emphasizes in the letter that his government is not willing to carry any capacity adjustments to the point where the viability of the enterprise itself would be threatened.

Eyskens's letter offers no exact figures on the funds considered necessary for the rehabilitation of the Belgian steel sector. It does, however, refer to the opinion of the French steel industry consultant Jean Gandois, who recently estimated that BF 95 billion would be needed for Cockerill-Sambre alone. With an approximate BF 55 billion already spent, this would leave about BF 40 billion to be allocated by 1985, which is the Commission's deadline for ending all state aids to steel enterprises in the Common Market. Eyskens also notes that the proposed restructuring would be at the expense of another 8,000 steel jobs in Belgium by 1986.

In related news, a majority of the Belgian lower house of Parliament has rejected the "regionalization" of five industrial sectors, including steel, which, under the provisions of the 1980 state reform, have remained under the administrative jurisdiction of the central government. Flemish politicians want these sectors to be put under the control of the regional authorities in order to prevent Flemish tax revenues from being "squandered" in support of quasi bankrupt Wallonian enterprises, such as Cockerill-Sambre. The representatives of Wallonia are opposed to this proposed shift, knowing that their regional government would be unable to raise the funds necessary to keep Cockerill-Sambre financially afloat.

Under a compromise formula worked out by the Martens administration, the Flemish side has been assured, however, that both regions in the future will have to contribute more of their own resources to industrial restructuring projects in their respective areas. It remains to be seen to what extent these contributions will be set off against the financial assistance given by the central government. Commentators said that this problem is bound to become another source of political friction between the two regions in the days to come.

Italy: Pessimistic Business Mood After Elections

Two weeks after the unexpected election outcome, which dealt the ruling Christian Democrats a crushing defeat, Italian business and industry leaders were still weighing the consequences for the nation's economy. The mood is pessimistic because no one expects the formation of the next coalition to be an easy matter, and so it may take a long time before a functioning government is installed in Rome. On the other hand, there is no longer the feeling of panic, which, on the day after the elections, caused stock prices to drop by 8.5% on the average, the largest loss in a single day since 1960.

Most political observers expect the upcoming coalition talks among the previous government partners to be at least as complicated as in the past because of the strengthened standing of the Socialists and the weakened position of the Democrazia Cristiana (DC). Before the elections, the smaller parties of the Republicans and Liberals had concurred with the DC that it was too early for new economic stimulants because the fight against inflation still had top priority. The Socialists, on the other hand, have been favoring a deficit spending approach, and their demands could delay agreement on a new, urgently needed economic crisis package.

Italian industry, watching for signs of a gradual recovery of the world economy, is concerned that it could "miss the boat" if and when the turnaround comes. A lack of political leadership in Rome, business leaders say, could delay appropriate measures in anticipation of an upturn - for instance, counteracting the inflationary pressures certain to result. "Industry needs new initiatives now," said the president of the Olivetti group, Carlo De Benedetti, who expressed the hope that the election results have come as a "healthy shock" to certain politicians.

Spain: Implementation of 40-Hour Workweek, 30-Day Leave

The 40-hour workweek and a minimum annual leave of 30 calendar days will be formally implemented in Spain as of July 30. Under Spanish labor law the upper limit has been 42-43 work hours a week. (The workday limit remains at nine hours.) Actually, however, a large percentage of workers are already enjoying a workweek of 40 hours or less as a result of collective agreements or special industrial restructuring programs.

In related news, Industry Minister Carlos Solchaga has indicated that Madrid plans to make it easier for hard-pressed small and medium-sized business to lay off unneeded workers. However, Solchaga cautioned business and industry not to expect too much from the government in terms of relaxing the rules that govern dismissals. He said the fact that unemployment in Spain totals 2.2 million should speak for itself.

Switzerland: Number of Holdings Sharply Down Over Five Years

The number of holding companies domiciled in Switzerland has been dropping steadily over the past years, going down from 16,482 in 1977 to 12,552 at the end of last year. According to the Association of Swiss Holding and Finance Companies, which published these figures in its latest annual report, the decrease can be attributed mainly to fiscal factors. In this connection, the report mentions the 35% anticipatory tax (*Doing Business in Europe*, *Par. 29,361*), which tends to act as a deterrent for foreign investors in those countries with which Switzerland does not maintain a double taxation treaty. Another deterring factor, the report says, is the continuing public debate over new and higher taxes in the financial sector.

Common Market Reports

EUROMARKET NEWS

Issue No. 757 *Report No. 479, July 20, 1983*

IN THIS ISSUE

Community: Recommendation to Quash Fine Against AEG

Advocate General Gerhard Reischl has recommended that the European Court of Justice set aside the Commission's decision involving a 1 million ECU fine against Germany's AEG-Telefunken and that the EC Executive pay the legal costs. In his opinion delivered last month, Reischl said that the Commission failed to fully substantiate that AEG-Telefunken's selective distribution system, as it was applied in practice, violated Treaty Article 85(1) (*AEG-Telefunken AG v. Commission*, Case No. 107/82).

Following up on complaints from actual or would-be AEG-Telefunken dealers, the Commission established in early 1982 that the manufacturer applied a distribution system different from that registered with the EC Executive in 1973. Under the system actually applied, admission to the dealer-distributor network was denied, rendered difficult, or made subject to further conditions, particularly for those distributors and dealers whose pricing threatened AEG's pricing policy, even though they otherwise satisfied the conditions set forth in the notified agreement. In setting the fine, the Commission took into account mitigating circumstances, such as the fact that the dis-

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criminatory action applied by AEG against potential distributors had been introduced at the request of established dealers *(Common Market Reports, Par. 10,366).*

In his 124-page opinion, Reischl stated that the conclusions drawn by the Commission in its decision were not wholly supported by the evidence. Only a few of the Commission's complaints were justified, according to the Advocate General, who said the evidence proved that only one dealer was denied admission to the network because he refused to resell the products at the minimum retail price set by AEG. There were only three proven cases in which admission was made dependent on the impact on inter-Member State trade, and there was only one proven case of AEG's trying unilaterally to influence retail prices, Reischl said. Proven violations of Article 85(1) by a manufacturer applying a distribution system are relevant only if they appreciably affect trade between Member States, he noted. In the single case of proven nonadmission of a Belgian dealer, the Advocate General does not see any appreciable impact on inter-Member State trade because the dealer's annual sales are rather modest and AEG's share of TV sets on the Belgian market is small.

Committee Urges Closer U.S.-Community Relations

The Economic and Social Committee has suggested a permanent dialogue between the United States and the Community, beyond the existing official ties. Politicians, civil servants, and representatives of economic and social interest groups should take part in the dialogue. The ESC also recommends a systematic two-way flow of information to enhance the public's understanding of political and economic realities. An expanded two-way flow of investments would do much to increase cooperation and mutual understanding, according to the ESC.

In its third report devoted to U.S.-EC relations, the ESC points to the ties and issues uniting the two partners and suggests that the common issues far outweigh the areas of discord. The committee believes that the Community's common agricultural policy will continue to remain a major bone of contention between the U.S. and the EEC. However, as the world's major agricultural exporters, the U.S. and the Community should work together for the smooth development of international farm trade, which, in the ESC's opinion, could be given concrete form in international agreements.

Since the Community's advanced-technology sector is lagging behind that of the United States (and Japan), the committee suggests an industrial policy based on closer cooperation between Community-based firms. Any tension that this policy might generate with the U.S. could be alleviated, in the committee's view, if the Community pursued a policy of cooperation with the U.S., especially in the field of research and development.

With regard to multilateral issues, the ESC points to the serious concern in the Community over the forthcoming renewal of the U.S.'s 1979 Export Administration Act. The ESC also criticizes the U.S. for underestimating the implications of its policies on two major issues. First, in imposing an embargo on American firms and their European subsidiaries or licensees selling gas pipeline equipment to the Soviet Union, Washington failed to consult the EEC Member States beforehand, and the embargo amounted to a worldwide application of American jurisdiction. Secondly, the U.S. is underestimating the impact its tight money policy and budget deficits could have on the economies of its main trading partners.

The ESC would like to see a regular intensive dialogue on economic and monetary matters between U.S. and Member State representatives so as to achieve fair concessions for both sides. The recent Williamsburg Summit was disappointing in this respect, the committee notes.

In Brief...

Tokyo's measures to reduce the Community's deficit in its trade with Japan are still considered insufficient by the Commission. Despite the agreement reached with the Japanese government last February over restraint in the export of ten product categories (among them cars, color TV sets, forklifts, and numerically controlled machine tools), another record trade deficit is expected for 1983 (1982: 11.6 billion ECUs). Also, Tokyo's administrative and legislative measures to broaden access of EEC products to the Japanese market have not helped to change the situation. According to official Japanese statistics covering January-April 1983, exports of cars rose by 22% and those of forklifts by 42%. Sales of Japanese color TV sets in the EEC went up by 4.2% and those of numerically controlled machine tools, except lathes, increased by 5.1%. A decline was noted only for motorcycles (-9%), video recorders (-4.8%), and lathes (-25.7%) + + + Construction of JET, the Joint European Torus experimental installation at Culham in the U.K., has been completed. The facility was briefly activated for the first time on June 25. Constructed at a cost of 322 million ECUs, mainly with Community funds, JET will be used to experiment with controlled thermonuclear fusion as a source of energy for the future.

Britain: Further Direct Tax Cuts in New Finance Bill

The U.K. Conservative government's new Finance Bill has been designed primarily to restore various provisions that were dropped from the previous Bill earlier this year in order to ensure that measure's passage before the June general elections. Peter Rees, a senior Treasury minister, said that, while the new Bill does not give a major blueprint for a tax reform, it does reaffirm the government's commitment to continue, "as circumstances allow," the reductions in direct taxation initiated by the government in the past. The overall cost of the proposals would be Ŀ236 million for the remainder of this year and Ŀ403 million in a full year.

The bill provides for the higher-rate threshold of income tax and the investment income surcharge threshold to be raised by 14%, to Ŀ14,600 and Ŀ7,100 respectively. If these amounts had been indexed to allow for inflation, there would have been a rise of only 5.5%.

The ceiling for tax relief on mortgage interest is to be increased from Ŀ25,000 to Ŀ30,000; the lower limit was set in 1974, but property prices have doubled since then. This measure is expected to help the hard-pressed construction industry and is consistent, Rees said, with the government's belief in home ownership.

The capital transfer tax threshold would be lifted to Ŀ60,000, and there would be increases in the rate bands, with improvements in the relief for businesses. There would be an exemption from development land tax for certain operations connected with the installation of advanced telecommunications systems.

The bill proposes that the corporation tax rate be reduced from 60% to 55.5% "to eliminate any discouragements to expansion" by small and medium-sized companies.

The government feels it is important to enact the remaining budget proposals on oil taxation as soon as possible. Rees said that these measures will be contained in a separate bill to be introduced in the fall, "in order to end any uncertainty which may be holding back developments in the North Sea."

France: New Technical Standards for Industrial Products

Industry Minister Laurent Fabius has outlined in a cabinet session four proposed decrees seeking to establish new technical standards for French industrial products. The government plans to set up an official agency to enforce these standards and to issue quality certificates. Reports from Paris said that the first set of standards would be established for household appliances and home electronics products, areas in which France suffers a large deficit in its trade with other countries, especially Germany.

Government spokesman Max Gallo denied that the proposed measures are a form of "hidden protectionism" and maintained that consumer protection was the foremost motive for the action. In any case, he said, the new standards would be reviewed by the European Commission to make sure that they do not conflict with the EEC's free trade rules.

The administration's announcement was nevertheless received with some trepidation by importers, who view the proposed measures mainly as a way of reducing France's large deficit in its trade with some major competitors. The newly appointed foreign trade minister, Edith Cresson, recently delivered a pointed warning that France would have to resort to a "system of regulations" if Germany did not take action soon to correct the "unbearable" trade imbalance between the two countries. Subsequently, Chancellor Helmut Kohl and President François Mitterrand agreed not to let the issue escalate to a "war of technical standards"; instead, both sides will try to adapt their respective national standards to common European standards.

The Socialist government has been under pressure for some time from both industry and the labor unions to do more to protect national production. In several firms, the unions persuaded management to stop orders of foreign-made capital goods in favor of French-made equipment. In the French press, commentators attribute the German trade surplus with France to Germany's "protectionist" technical standards policy, which allegedly prevents many foreign products from being admitted to the German market.

The German trade surplus with France has, in fact, risen from DM 10 billion in 1980 to more than DM 17 billion in current annual terms. The German export industry argues that this surplus does not result from protectionist trade barriers but from the competitiveness on the French market of German-made products that have to meet stringent quality and safety controls based on official German standards. Germany has about 18,000 and France about 11,000 of these standards or norms. Of the latter, only 400 are obligatory safety norms, and many French manufacturers tend to disregard these norms in order to save costs. However, French industries competing on the world markets have been increasingly adapting their production to the strict norms of Germany or the U.S. in order to remain technically competitive.

Paris Offers Further Details on Proposed Bank Reform

Finance Minister Jacques Delors has presented a legislative program for a reform of the French banking system, which has been a long-standing economic policy project of the Socialist government. In contrast to the speedy nationalization of 38 banks and finance institutions early last year, the work on the legal and institutional overhaul of the national banking and credit system is proceeding very slowly. Last February, the government made public a first outline of its proposals.

The latest reform proposals have four principal objectives: (1) the modernization of the existing legal framework for the banking sector, which has essentially remained unchanged for 35 years; (2) the reorganization and "democratization" of the supervisory and controlling agencies; (3) the harmonization of regulations governing the various types of credit institutions;

and (4) the improvement of relations with customers and clients. At a later time, the government will deal with such aspects as the lowering of credit costs, a new definition of the function of finance companies, and regional responsibilities of banks.

The current reform project will join all banks and finance institutions under a single statutory umbrella and make them subject to common regulatory controls. This step will have the effect of facilitating the integration of the savings banks, the cooperative banks, and the farmers' cooperative bank (Crédit Agricole) into the system. The central bank (Banque de France), the Caisse des Dépôts et Consignations, and the financial branch of the Post Office will not be affected by the harmonization.

In the future, the country's money and credit policies would be determined at three different levels. The overall guidelines would be set by the government through the *Comité de la réglementation*, headed by the Finance Minister, and the *Comité des établissements de crédit*. The so-called Banking Commission, which is to supersede the Banking Control Commission, would have relatively far-reaching powers with respect to supervision, surveillance, and sanctions; it would be headed by the governor of the central bank. Finally, the National Credit Council would be an advisory body representing all factions that are part of the banking system.

A few new aspects have been added to the proposals as first outlined last February, and they would mainly benefit bank clients. For instance, a customer would have a "right to an account," which would prevent his bank from denying him access to the account in the case of "bounced checks." Corporate clients would be given more favorable notice periods when a bank reduces or terminates a loan.

Germany: VAT Treatment of Transactions Within Groups

Enactment of a tax bill prepared by the German Finance Ministry would revoke the turnover tax (value-added tax) exemption granted on sales and service transactions within integrated groups of companies in cases where international transactions are involved. The draft is the result of efforts by the European Commission, which since 1981 has been trying to convince the German government that the favorable tax treatment of internationally integrated companies (including inter-Member State relationships) cannot be reconciled with the Sixth Council VAT Directive. Article 4, paragraph 4, of that directive allows the Member States to treat as single taxable entities those businesses which, "while legally independent, are closely bound to one another by financial, economic, and organizational links" *(Common Market Reports, Par. 3165D)*. However, this provision refers only to domestic dependent entities dominated by another domestic enterprise.

Section 2(2), No. 2, of the German Value-Added Tax Law expressly recognizes the case law concept of one business's integration into another by stipulating that sales and services between the dependent business and the dominant enterprise are considered nontaxable internal turnovers within the same enterprise. The German government has so far held the belief that this concept applies to internationally integrated enterprises as well, that it does not distort competition, and that there have been no complaints about any distortions as a result of the favorable tax treatment. However, Bonn reportedly is no longer confident that its argumentation would survive a judicial test if the Commission decided to bring the issue before the European Court of Justice.

While business executives are prepared to accept a restriction in applying the concept, they are most concerned about the fact that Finance Ministry officials are wondering whether the concept of VAT-exempt internal turnovers among members of an integrated group of domestic companies should be retained at all. If that concept were abolished, legally independent, but financially, economically, and organizationally integrated entities would have to write bills (or give credit) for sales, and every bill would have to indicate the amount of VAT. Also, taxpayer entities would have to meet the other statutory requirements *(Doing Business in Europe, Pars. 23,371, 23,376)*. Although these taxpayer entities would be entitled to deduct the invoiced VAT from their general turnover tax liability *(Doing Business in Europe, Par. 23,371A)*, they would face considerably more paperwork.

Luxembourg: Parliament Approves Aid Plan for Arbed Steel

The Luxembourg parliament has approved the so-called Tripartite Law, which provides the legal basis for LF 11.5 billion in state aid to the ailing Arbed steel group, the Grand Duchy's largest industrial employer. In order to raise the funds, the government is reducing its budget contribution to the country's unemployment insurance system and, as of July 1, has raised the value-added tax rate from 10% to 12%. At the same time, telephone charges were increased from LF 3 to LF 5 per unit, and postage rates went up by 20%. The income-related "solidarity tax" also was adjusted upward. The continuous inflation indexation of wages and salaries will be replaced by four adjustments - three this year and one in 1984 - which will, in effect, result in real-term income losses. The law further empowers the government to reduce the pay and pension benefits of steel industry employees.

The newly approved aid is urgently needed to ensure the survival of Arbed, which reported losses of LF 3.2 billion in 1981 and of LF 4.3 billion last year. In the parliamentary debate preceding the vote, Prime Minister Pierre Werner indicated, however, that the LF 11.5 billion in assistance will not be sufficient to keep Arbed afloat for more than 24 months. The company's net interest burden alone amounted to LF 4.6 billion, or nearly 10% of turnover, in 1982.

Of the total amount of state aid, LF 2.75 billion is reserved for the purchase of Arbed shares by the government and LF 2.5 billion for the purchase of shares of the Sidmar subsidiary. Both the Arbed management and Premier Werner have made it clear that no funds are available to help Arbed's German subsidiary Arbed Saarstahl, which is battling financial problems of its own and is being supported with German state subsidies.

Portugal: Private Businesses Allowed in Key Sectors

At the initiative of the new Socialist-Social Democrat coalition government under Premier Mario Soares, the Portuguese parliament has voted to reopen key economic sectors to private business. In a vote of 149 to 44, the assembly approved a law authorizing the establishment of private banks, insurers, and cement and fertilizer industries. The legislation does not provide for the reprivatization of those enterprises that were nationalized after the 1974 revolution.

The Communists and a small group of radical Socialists are opposed to the new law, viewing it as a "betrayal of the revolution." The Intersindical labor union, which is affiliated with the Communist Party, tried to block the measure by staging strikes and protest demonstrations. Before its dissolution last year, as the result of a constitutional reform, the Revolutionary Council had vetoed similar draft legislation four times.

Numerous foreign banks have set up representative offices in Portugal over the last few years in anticipation of a change in official investment policies. It is now expected that some of these banks will seek permission to open permanent establishments.

EURO COMPANY SCENE

The German supreme court has upheld an order by the Federal Cartel Office barring the merger of the German operations of the United States' Philip Morris and Britain's Rothmans Tobacco. The 1982 order of the Cartel Office followed Philip Morris's 50% acquisition of Rothmans the year before. The deal gave the American company an indirect 22% stake in Rothmans International, which in turn controls 16.8% of the West German cigarette market through Martin Brinkmann AG. With Philip Morris itself holding 14.4% of the German market, the merger would have boosted the combined share to more than 30%.

Common Market Reports

EUROMARKET NEWS

Issue No. 758 *July 26, 1983*

IN THIS ISSUE

Community: EP Rejects Beverage Container Draft Directive

The European Parliament has asked the EC Commission to replace its draft directive on reduction and recycling of beverage containers with a nonbinding recommendation. However, the EP endorses the objectives sought in the measure: conservation of energy and raw materials; reduction in the volume of waste (beverage containers account for 10% of household refuse, or 10 million tons annually in the EEC); and encouraging recycling of spent containers *(Common Market Reports, Par. 10,301)*.

Parliament's resolution concludes the EP's procedure of consultation on the proposal but does not still the controversy that has surrounded the measure since the Commission proposed it in April 1981. The EC Executive is chided for its failure to offer a scientific basis for the proposed measure, to provide sufficient justification for Community action, and to consult interested parties on a much broader scale before drafting the proposal. The Commission is also attacked for not taking into account recent technical innovations in waste disposal and nu-

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merous voluntary recycling programs in many States that preclude the need for state intervention.

The EC Executive would go along with all the suggestions made by the EP, according to Commissioner Karl-Heinz Narjes, except for replacing the draft directive with a recommendation. Narjes emphasized that the Commission, in drafting the measure, was guided by flexibility so that, for example, the Member States would retain the freedom to set annual objectives for waste reduction. To accede to the EP's request for a nonbinding recommendation would mean foregoing a major goal of the Community's environmental policy, Narjes said. The Commissioner added that the EP's approach contradicts the Community's environmental policy, which the EP supported in its approval of the EEC's first and second environmental action programs. Narjes reminded Parliament that the Economic and Social Committee, which represents the same economic interests as are represented in the Assembly, nearly unanimously approved the Commission's draft directive; only the U.K. and Ireland want a recommendation, Narjes said.

Council Turns Down Energy Consumption Tax

The Council of Ministers has rejected the Commission's proposal for a common energy consumption tax. All the Member States except Italy believe that such a tax does not fit into the present economic situation (a slight upturn in most States' economies). The States also disagree with the philosophy behind the proposal.

Originally, the Commission wanted an energy consumption tax as a source of revenue for the Community budget, but later it envisioned such a tax to finance a five-year, 2 billion ECU program to support the expansion of existing energy sources other than oil as well as the development of alternative energy sources. A straight energy consumption tax as a way of increasing Community budget revenues was heavily disputed within the Commission and was considered dead even before last month's Stuttgart Summit and its call to keep Community expenditures down. Still, the Commission felt that despite the progress made so far in substituting crude oil for other sources of energy additional efforts were needed because the decline in crude oil prices might lessen the efforts to conserve energy. The Commission wanted to ensure that about 2% of the Community's GNP be used to finance the five-year energy investment plan. Similar investments in the individual Member States have dropped to roughly 1.6% of GNP, while in the U.S. and Japan the percentages are 4% and 3%, respectively.

Representatives of all the Member States disagree with the Commission's pessimistic outlook that the decline in crude oil prices will reduce energy conservation efforts. Instead, they believe that lower oil prices will stimulate the economic upturn and therefore should not be counteracted by placing an additional burden on consumers.

However, Commissioner Etienne Davignon, responsible for energy matters, has not given up all hope for a tax on energy consumption. Several Member State governments have been toying with the idea for some time, according to Davignon.

In Brief...

The European Court of Justice has held the U.K. in default of the EEC Treaty for charging a substantially higher excise tax on light wines than on beer (judgment of July 12, 1983, Case No. 170/78). Most of the wines are imported, and the Court saw the higher tax, designed to protect domestic breweries, as contrary to Treaty Article 95. The judgment closes a case that was part of a series of actions brought by the Commission in 1978 against France, Italy, and Denmark over discriminatory taxation of imported spirits. The Court held in those cases that the States were to apply the same level of taxation to both domestic and imported spirits *(Common Market Reports, Pars. 8647, 8648, 8649)*. In the suit against the U.K., the EC tribunal upheld the Commission's view that wine and beer are to some extent substitutable *(Common Market Reports, Par. 8651)*. Brussels observers believe that the judgment will influence Council deliberations on harmonization of national excise tax rules + + + The recent French-German agreement settling the dispute over national standards hampering sales in the two territories is reportedly showing results. French customs no longer refuses to clear imports of deep freezers from Germany that have not received the French certificate of conformity. Mutual recognition of standards is the core of the agreement and, because of the Community's free circulation privilege, not just German manufactured but all deep freezers produced in the Community and carrying the certificate of EEC origin can now clear the French borders easily. However, deep freezers from third countries cannot.

Germany: Unilateral Drive for Unleaded Fuel Planned

The German government is determined to propose legislation that would require the oil refineries to produce unleaded gasoline and also force automakers to produce only cars that detoxify engine exhaust. Both measures would take effect on Jan. 1, 1986. Owners of cars registered before that date would have ten years to equip the vehicles with a pollution reduction device.

As recently as last month, the government was opposed to any unilateral action because of the negative effects such a move would have both on the sale of German cars in other Member States and on intra-EEC trade generally. There was also concern about the implications for the free movement of persons, especially tourists traveling in cars. The government now believes that it should act as a pacemaker in improving the environment on a European scale, as it did with its low-lead fuel legislation *(Doing Business in Europe, Par. 23,544B; Common Market Reports, Par. 3315.29)*. No other Member State has had as much acid rain damage to its forests as West Germany.

France and Italy are against lead-free gasoline legislation, fearing that the costs their automakers would incur would make the vehicles less competitive. Bonn reportedly received backing for its move from three Member States (the U.K., Denmark, and Greece) and is also getting full support from Austria, Switzerland, Norway, and Sweden. Bonn has shrugged aside the objection that German tourists traveling to France and Italy might not be able to buy unleaded fuel for their cars. Both countries are interested in tourism and therefore will see to it that lead-free gasoline is available, German government officials say.

Change in Sentiment Over Store Closing Law

A recent survey made by the renowned Ifo research institute in Germany refutes the claim made by the national retailers' association that all store owners are happy with the country's rigid closing hour law. One out of every five retailers would like to stay open until 8 PM one day a week (preferably Thursday) and discontinue the extended shopping day on the first Saturday of every month.

In 1956, Parliament passed a bill that limits store hours from 7 AM to 6:30 PM Monday through Friday and from 7 AM until 2 PM on Saturdays, except for the first Saturday of the month, when stores may stay open until 6 PM. There are some exceptions, such as for shops in railroad stations and airports. All attempts to change the rigid law have foundered so far on the united opposition of the unions, the national retailers' association, and many lawmakers. The courts have throttled all attempts by several city administrations or individuals to offer buyers more convenient shopping hours.

Although the government has no plans at this time to propose a change in the law, the number of lawmakers who are having second thoughts about the rigid law is rising. The Free Democrats have come out in favor of a change. Consumer organizations emphasize that buyers were not asked in 1956, or at any time thereafter, whether they were in favor of rigid closing hours. According to the Bonn-based national consumer organization (AGV), the survey provides valuable information that the lawmakers should not ignore if it ever comes to a proposal to change the selling hours rules. The law should leave closing hours up to the retailers themselves, AGV says, because the survey indicates that the small retail food stores are satisfied with the current system, while car dealers and stores selling consumer goods would like to keep their stores open longer one day a week. In Belgium, the store owner decides what hours he will stay open. In Switzerland, village and city governments set store closing hours. France, Italy, and the Netherlands establish a maximum number of selling hours and allow the store owner to decide when he wants to sell.

France: Wealth Tax Exceeds Expected Revenue Volume

The French government has issued figures showing that the wealth tax introduced during the middle of last year yielded about FF 4 billion in 1982. When payments in arrears are finally made, the total sum should reach FF 4.5 billion, which is slightly more than originally estimated but still rather modest.

A total of 104,000 taxpayers filed wealth tax returns for 1982. 35% of these taxpayers, having declared 19% of the total taxable assets, paid only 3% of the total wealth tax revenue received by the government. On the other hand, 440 persons, with 8% of the total taxable assets, paid 21% of the total revenue. Owners of smaller assets, mostly real estate, were taxed at lower rates, while owners of larger fortunes had most of their capital invested in securities.

In 1983, tax rates are to remain as they were in the previous year, but the general exemption is to rise from FF 3 million to FF 3.2 million, and the exemption for private business assets will go up from FF 2 million to FF 2.2 million. Assets of between FF 3.2 million and FF 5.3 million will be taxed at the lower rate of 0.5%. A 1% rate will be applied to assets of FF 5.3 million (FF 5 million in 1982), and assets over FF 10.6 million (over FF 10 million in 1982) will be taxed at 1.5%.

Netherlands: Changes in Boycott Reporting Bill

The Dutch economics ministry has made several changes in its long-discussed bill on the reporting of third-country boycott measures. The draft, as now modified, would not only require all Dutch firms to report any situation in which they might be affected by foreign boycotts influencing third-country trading, but would also cover indirect boycotts effected through Dutch subsidiaries of multinationals established abroad. (A specifically cited example is last year's U.S. boycott of firms involved in the Soviet natural gas pipeline contract.) The draft has also been changed to avoid conflicts that could arise from extraterritorial jurisdiction; hence, firms that are only formally registered in Holland without conducting regular business activities would be exempt from the reporting requirement.

If the bill is passed by Parliament, the reported information would allow the government to analyze the effects of boycotts, but not to take action. The law would remain in force for three years, thus giving the government an opportunity to consider the data gathered at a later period.

Britain: Survey Indicates Upturn in Economy

The U.K.'s economy shows the strongest signs of recovery among all European countries, according to a recent OECD survey. The report, covering all Western European nations, foresees a growth rate of 1.75% in 1983 and 2.25% next year. It says that "evidence of recovery is now extensive," and business opinion is optimistic that the recovery will persist. Activity in the second half of last year was stronger than anticipated, reflecting a strong surge in private consumption. Inflation dropped faster than originally expected, leading to an increase in real disposable incomes.

Inflation is forecast to increase to an annual rate of slightly below 7% by the end of this year, and higher import prices caused by sterling's earlier decline will be largely responsible for this rise. A subsequent fall to below 6% is looked for in 1984, assuming there is no sudden upsurge in wage levels.

In the last six months of 1982, unexpectedly buoyant sales and persisting high interest rates caused a sharp run-down in stocks. However, business surveys and the steep rise in imports in the first quarter of 1983 show that the rate of stock depletion is declining. In the same period, some increase in manufacturing production was recorded, and exports are expected to rise in terms of volume by 4% in 1984, reflecting the envisaged recovery in world trade and increased U.K. competitiveness. However, a rise in imports is also confidently expected because of strengthened domestic demand, which, according to the survey, will be fueled by investment growth, a moderate rise in private consumption, and the reversal of the fall in stock building.

Cheaper sources of finance and lower inflation as well as the rise in business confidence and increased demand are likely to lead to a reasonable recovery for fixed investment in machinery and equipment, and the overall prospects are encouraging. However, the report stresses that "numerous uncertainties" surround its projections, which assume unchanged oil prices, exchange rates and U.K. government policies. Despite the projected economic growth, the report said, there is little prospect of a drop in the number of unemployed.

Switzerland: Admission of Aliens; Truck, Highway Levies

The Swiss federal government is proposing a revision of the regulations governing the admission of foreigners into the country.

Bern is concerned by the fact that the number of resident aliens has risen by 42,000, to 926,000, in the last three years. Other factors being considered are the upcoming parliamentary elections and the 0.9% unemployment rate, which, while insignificant by international standards, is worrisome enough for the Swiss.

Over the last few years, the annual Swiss admission quota of 110,000 for alien seasonal workers *(Saisonarbeiter)* has been regularly exceeded, and the government is now planning to reduce the quota to prevent the overspill. Stricter curbs are to affect foreigners who do not fall under an admission quota: alien workers would not be allowed to have family members other than their minor and unmarried children follow them to Switzerland. Other categories of aliens - for instance, foreign civil servants attached to foreign or international organizations - would be included in the quota system.

In other news, the government is preparing a constitutional referendum on two controversial measures that have already received parliamentary approval but are by no means assured of the voters' support. One proposal involves the introduction of a levy on heavy trucks *(Schwerverkehrsabgabe)*, while the other provides for the imposition of a toll charge on the general use of the country's highways *(Autobahngebühr)*. The truck levy would be expected to bring in SF 150 million in annual revenues. It would affect both domestic and foreign truckers, which has already triggered sharp protests from abroad and by the European Commission. The highway toll charge would improve government revenue by about SF 200 million a year, based on a proposed levy of SF 30 per automobile. This measure, too, would affect foreign motorists, who would have to purchase tax stickers at the border checkpoints before entering the country. Both measures would be tentatively applied over a ten-year period.

Sweden: Panel's Report on Planned Employee Funds

A Swedish government panel has suggested that the planned employee investment funds giving workers indirect ownership in companies be fed by corporate profits and increased employers' old-age insurance contributions. In its recent report, the panel recommends several changes in earlier plans that have met with criticism from the business community and the opposition. For many observers, the report in effect represents the bill, and the chances for realization of the plans have improved since both Prime Minister Olof Palme and Finance Minister Kjell-Olof Feldt have abandoned the reserve they have displayed in the past.

Under the plan, five regional employee investment funds would be established, each of which would operate on the model of the four existing old-age pension funds (one of which already operates on the stock market). The investment funds would be directly linked to the existing old-age pension funds in that part of their income would be from a rise in employers' pension contributions by 0.2-0.5%, and they would have to pay 3% of their return on investments to the pension funds. The bulk of the funds for investment, however, would come from a 20% tax on corporate profits, payable by around 5,000 corporations. (This tax is being imposed this year.) The supervisory bodies would be named by the government, with five of the nine members of each board representing trade union interests and the remainder representing the regional and central governments.

Employers and the Conservative opposition claim that the plan will broaden the power that unions and government already exert in influencing the economy through the existing system of interlocking directorates. Proponents say it will provide an incentive to workers to accept lower wage rises and will provide risk capital for industry as well as help to cover the old-age pension funds' deficit.

Yugoslavia: OECD Praises 'Remarkable Resolve'

The Yugoslav government is praised in a recent OECD economic survey for the "remarkable resolve" it has shown in tackling the country's severe economic problems. The stabilization efforts are the result of extremely restrictive economic policies, which have led to a 10% cut in real average earnings in the first quarter of 1983 compared to a year earlier. The report estimates that real wages will fall an average of 6% over the whole of this year, and total domestic demand will be down by 4%. But the experts also warn the government to be careful and not to overdo things in the short run, leaving itself no maneuvering room for the long stretch to come. The organization urges increased efforts to improve competitiveness by letting foreign products into the market and to break down the restrictive efforts of economic regionalization.

In an effort to cope with a burgeoning foreign debt, Yugoslavia has undertaken a series of drastic devaluations and concluded a $6.5 billion loan package with the IMF, the Bank for International Settlements, and a series of OECD countries, including the U.S. and Switzerland. As a result, the volume of Yugoslav exports to the West has been rising, and the OECD forecasts a 2% increase for 1983, far less than the 8.7% anticipated by the government. Imports dropped sharply in 1982 (-13.5%). While Belgrade expects an improvement here, in that 1983 imports will be 4% below 1982 levels, the organization anticipates a 7% decline.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Member States Differ Over EC Finances

The Council of Ministers' current discussions on the Community's future finances are characterized by a deep rift due to the diverging interests of States that are financially better situated and those that are less well off. For Germany, Britain, and the Netherlands, higher Community expenditures mean they would have to contribute more. These States are against raising the 1% ceiling on VAT revenue that provides about 60% of the Community's funds (the Commission has proposed that the EC be given 1.4% of the assessment base of the Member States' value-added tax revenue). Without cutbacks in spending, especially in the common agricultural policy, the Community is heading toward a financial crisis. Italy, Greece, and Ireland, all beneficiaries of the common policies and the EEC's regional and social development funds, are against any cutbacks.

The differences in the Member States' interests became obvious again at the Council's first reading of the proposed 1984 budget, which calls for an overall 11.5% increase in EC expendi-

This issue is in two parts. This is Part I.

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tures over 1983 outlays. The dispute has also entered the Council debate on the broader issue of budget reform, one of the goals assigned to the Council by the Stuttgart summit in June. Only optimists can hope that solutions for the Community's finances will be found by the time the next summit rolls around (Dec. 6 in Athens), Germany's Finance Minister Gerhard Stoltenberg said after the budget discussions. Most Brussels observers share Stoltenberg's assessment because the issue of the Community's future finances is closely linked to that of the CAP reform, the second major goal assigned to the Council by the Stuttgart summit.

The need for reform is now acknowledged by most Member States: the total cost of agricultural support measures is running over one-third higher than during the same period last year, and the Community is expected to run out of funds later this year. Never before in the EEC's history has the butter surplus (700,000 tons) and the milk powder surplus (900,000 tons) been so big. The Commission's plans to further control milk surplus production would combine two measures: lowering the guaranteed price for milk and increasing the penalty for farmers who produce milk over certain limits. German farmers, who contribute roughly 40% to the butter surplus, would be affected the most. These measures, on top of the planned abolishment of the monetary compensatory amounts, which have protected mostly German farmers against loss of income due to currency fluctuations and cost the EEC some DM 700 million last year, might put Bonn in a difficult position. A rejection of the measures would require additional funds for the EC budget, an alternative that the Germans, who have been advocating a CAP reform, are not likely to approve. Subsidies to German farmers appear to most observers to be the only alternative.

Court Ruling to Revive Excise Tax Debate

The European Court of Justice's recent judgment holding Britain in default of Treaty Article 95 for its much higher excise tax on wine than on beer has been welcomed by France's and Germany's alcoholic beverage producers' associations (judgment of July 12, 1983, Case No. 170/78). Officers of both associations are confident that the judgment will prompt reopening of the stalled Council debate on the proposed harmonization of national rules on excise taxes for beer, wine, and other alcoholic beverages *(Common Market Reports, Pars. 3201.09-.13)*. According to the officers, should this debate continue for another year or so without any result, the judgment would encourage exporters of wine to Britain to fight continued excessive excise tax assessments in the courts.

On the basis of the data produced by the Commission and the British government, the Court of Justice found that the U.K.'s imposition on wine of an excise tax five times higher than that levied on beer could not be reconciled with paragraph 2 of Treaty Article 95 *(Common Market Reports, Pars. 3001, 3002.07)*. This provision prohibits discriminatory charges imposed on imported products to protect domestic products. In the case against Britain, the Court ruled that the excessive excise tax on wine, all of which is imported, protected domestic beer production. The EC tribunal established several criteria that the Member States' Parliaments in enacting national excise tax provisions (and the Council of Ministers as the Community lawmaker in harmonizing them) must observe. Brussels observers expect the Commission to rewrite its draft directive concerning taxation of wine and beer and, in doing so, to reflect the Court's criteria.

In Brief...

Following three days of tough bargaining, the Council on July 22 approved a 2.1 billion ECU supplementary budget for 1983. Britain opposed the decision because the 307 million ECU refund for the U.K. provided in the supplementary budget is 77 million ECUs less than the amount agreed upon at the Stuttgart summit. Most of the funds are needed to stave off a financial crisis in the common agricultural policy, resulting from the higher costs of this year's farm support measures + + + The European Court of Justice has declined to issue an interim order against the Commission to bring about suspension of an EEC customs regulation providing for a provisional 7% antidumping duty on zinc imports from the Soviet Union. Raznoimport, the Soviet trading firm that sought the order, also brought suit against the Commission to have the June 17 regulation invalidated. The case is significant because it is the first time that the Soviet Union has approached the EC tribunal, which could be interpreted as an implied recognition of the EEC, a step the Kremlin has so far declined to take.

Germany: No Plans to Amend Competition Law

The German government has no plans to propose amendments to the Law Against Restraints on Competition (GWB) during the current 1983-87 legislative session. Commenting on the Federal Cartel Office's 1981-82 activities report, a high ranking government official said that concern over large-scale price-fixing among many major construction firms does not warrant such amendments at this time because these restraints on free competition can be dealt with using remedies available under the law. The opposition has been demanding an amendment that would make price-fixing a crime rather than an administrative misdemeanor *(Doing Business in Europe, Par. 23,514)*.

Cartel Office President Prof. Wolfgang Kartte said his agency is quite aware of the special problems that the construction sector is facing. No other branch of industry is so affected by fluctuations in the business cycle, and no other sector depends so much on government contracts, according to Kartte, but these problems cannot justify price-fixing. The latest activities report shows that price-fixing was not confined to large government construction projects but extended to small public, and even private, projects.

The activities report also shows that the concentration of economic power through mergers slowed somewhat in the 1981-82 period. In 1981, the Federal Cartel Office received 618 notifications of completed mergers, and in 1982 it received 603 such notices *(Doing Business in Europe, Par. 23,510A)*. In 1981, the Office barred parties to 11 planned mergers from going through with their plans; in 1982, the figure was two.

Since the 1980 Amendment Act that tightened notification requirements for planned mergers *(Doing Business in Europe, Pars. 23,510B, 23,510C)*, the work of the Cartel Office has shifted to preventive merger controls, which affected slightly more than two-thirds of all merger cases. Large companies are now concentrating on buying small firms with annual sales under DM 4 million, Kartte said. If the acquired firm's annual turnover is below that threshold, the acquiring company need not notify the Cartel Office. The rising number of mergers in the food retailing sector are of considerable concern, Kartte said. In the 1981-82 period, there were 87 such mergers, 41 more than in the 1979-80 period.

Bonn Sees No Need for Repeal of Job Referral Rule

The German government has indicated that it will not relax the statutory job referral monopoly. German law allows only the government's labor exchange offices to refer unemployed persons to employers; private employment agencies are prohibited *(Doing Business in Europe, Par. 23,427)*. There had been hopes for a relaxation, if not a repeal, of the rule because of several recent instances demonstrating that the private sector can often find jobs for the unemployed faster and better than the government's labor offices. The Free Democrats believe that the job referral system should be changed because the labor offices are slow and act in a bureaucratic manner. Franz-Josef Strauss, governor of Bavaria and the powerful leader of the Christian-Social Union party, also supports a repeal of the monopoly rule. Many business executives, too, feel that the government's job referral monopoly should go.

Individuals and organizations that practice job referral in violation of the law may be fined up to DM 30,000, but there has been a relaxation in the prosecution of these cases. An internal circular, sent out last May by the government's central office in Nuremberg, instructs the labor offices throughout the country to show leniency in all instances of unauthorized job referrals. The government, which backs this policy, says a repeal of the law would be at the expense of jobless persons.

Government officials say that the labor exchange offices may work a bit slowly, but nobody has ever been cheated. In the case of private agencies, on the other hand, fraud could not be ruled out, the officials say.

France: Attack on State Tobacco Pricing Monopoly

The remnants of an old state monopoly may topple if a well-known French businessman is successful in his attack on what is left of the French government's manufactured tobacco monopoly. Edouard Leclerc, president of a large chain of retail centers carrying his name, wants to buy tobacco and cigarettes in other Member States and sell them in France below the prices set by Seita *(Service d'exploitation industrielle des tabacs et des allumettes)*, an agency to which the government has delegated the powers flowing from the monopoly. Should the French government force Leclerc to raise his prices to the level of Seita prices, the retailer will bring the matter before the European Court of Justice.

It took years of pressure from the European Commission before France made the necessary adjustment in its tobacco monopoly as required by Treaty Article 37 *(Common Market Reports, Par. 355, 356.05)*. Only under the threat of legal action did the government give in and draft the legislation. The measure, approved by the National Assembly late last year, removed the remaining discriminatory aspects of the monopoly (for example, nationals from other Member States may now become tobacco retailers in France). In 1979, France removed two major elements of its monopoly: the exclusive import and wholesale marketing rights with respect to manufactured tobacco from other Member States. Neither of these measures concerned the remaining right to set retail prices.

Leclerc has been in the headlines many times in the past for his success in selling products below price levels decreed by the government. He is again in the news because of his gasoline prices. Filling stations belonging to his retail chain were selling gasoline at 15 centimes less per liter (regulations allow a rebate of 10 centimes at the most). A few weeks ago a French court rejected a suit brought by six other gas station owners, ruling that the government's regulation of gasoline prices violates EEC competition rules. Leclerc gas outlets are now offering gasoline at 20 centimes less.

Paris Report Expects Reduction in Trade Deficit

According to a report recently released by the National Statistics Institute, France's trade deficit during the second half of 1983 is expected to average FF 3-4 billion a month, producing an estimated deficit for the whole year of FF 60 billion, compared to the 1982 figure of FF 93 billion. Rising debt service costs as well as an unsatisfactory tourist season, however, are likely to result in a smaller reduction in the current account deficit, according to observers in Paris. The report also predicts a 0.9% fall in GDP for the current year, and a cost-of-living increase of just under 9% for the year (9.7% in 1982).

Netherlands: New Drastic Spending Cuts Planned

A drastic series of further cuts in spending will be major features of the 1984 draft budget that the Dutch government plans to submit in September. One key element will be a 3.5% cut in nominal wages and salaries in the public sector, matched by a similar cut in minimum wages and social benefits. Altogether some 4 billion guilders are expected to be saved. Other reductions in expenditure in various government departments and in the health and social insurance systems are planned in order to reduce the budget deficit by a further 7 billion guilders. The resulting savings are still less than the 13 billion guilders in cuts that the Christian Democrats' right-wing liberal coalition partners had demanded. The right-center liberal party (VVD) was nevertheless able to block one Christian Democratic proposal to reduce the deficit through an increase in value-added tax.

The government also plans to reduce the corporate income tax rate from 48% to 40% over several years *(Doing Business in Europe, Par. 26,813)*. In 1984, the overall tax burden on businesses will be cut by 2 billion guilders, partly as a result of a decrease in the employers' contribution to the social insurance system (the employee contribution will be raised to compensate).

Despite the cuts, the deficit next year is still expected to reach 33.5 billion guilders, and the central planning office, a government agency under the control of the economics ministry, warns that the budget cuts may worsen rather than improve the situation by causing a collapse in purchasing power in both the private consumer and investment sectors. The planning office rejects VVD claims that improved international sales of Dutch products will counterbalance the domestic effects of the program. Unemployment reached postwar record levels in June: some 810,000 persons, or 17% of the total work force, are out of jobs. However, inflation dropped in June to 2.5%, the lowest rate in Europe, and the wave of bankruptcies is now subsiding (1,678 for the first half of this year as against 1,797 during the same period of 1982). Imports rose slightly during the first four months of this year compared with 1982 figures (55.6 billion guilders as against 54.8 billion guilders). Exports declined slightly during the same period (61.5 billion guilders as against 60.8 billion guilders), thus reducing the trade surplus.

Austria: Additional Burden for Taxpayers Expected

Austrian Chancellor Fred Sinowatz has predicted some unpleasant surprises ahead for the country's taxpayers when his government presents its 1984 draft budget in September. Without revealing any details, Sinowatz told Parliament at a special session on July 22 that he sees no need to depart from the policy of deficit spending in order to continue on a course aimed at full employment. The price of such a policy is a high budget deficit, the chancellor told the lawmakers.

It was the opposition that insisted on calling the lawmakers back from vacation after Finance Minister Herbert Salcher admitted that the government had grossly miscalculated revenue and spending for the current 1983 budget because of the optimistic assessment of economic developments, such as unemployment. Instead of the 74 billion shilling deficit estimated for fiscal 1983, the actual shortfall will be 95 billion shillings, according to the administration. Net borrowing will be 68 billion instead of the planned 48 billion shillings. The opposition, accusing the government of submitting a "fake" budget proposal, demanded the resignation of the finance minister and a special audit of the 1982 and 1983 budgets by the Accounting Office. Opposition leaders were inspired to make these demands by remarks of Vice-chancellor Norbert Steger, who reportedly said that the draft budget was presented in a favorable light because of last April's national elections.

Switzerland: Phosphates; Anti-strike Agreement

Manufacturers and importers of detergents may have to face a ban on the use of phosphates in washing products if the Swiss government's plans materialize. The environmental protection agency has been instructed to draft changes in the rules governing the contents of household detergents *(Doing Business in Europe, Par. 29,548E)*. Switzerland would be the first European country to effect such a ban. The administration's move is a follow-up to the report by a government commission recommending that phosphates be replaced by nitrilo-tri-acetic acid (NTA), a substitute already used in some detergents overseas. Other Western European countries are also considering such a move. Phosphates from households, industry, and agriculture have acted as a fertilizer for algae in rivers and lakes. The result is a rapid consumption of oxygen, destroying all other life in the water that normally purifies the aquatic environment.

In other news, the Swiss machinery and metalworking industry will continue to be free from strikes and lockouts for the next five years, as it has been over the last 45 years, as a result of the extension until 1989 of the agreement committing both employers and the unions to abstaining from industrial action and resolving disputes through negotiations. The current agreement, signed first in 1937 and now covering several thousand businesses employing 330,000 persons, was to expire at the end of this year. The accord sets forth provisions on working conditions and pay (the 42-hour workweek was introduced to the industry on Jan. 1, 1983). Employees will work 41 hours a week as of 1986 and 40 hours as of 1988; only half of the lost time will be paid for.

EURO COMPANY SCENE

Beatrice Foods, the U.S. food producer, has acquired a majority interest in excess of 50% in a leading German foods group, Stute. The German company produces mainly canned fruit, jams, and beverages and has annual sales of more than DM 500 million.

Following the example of other international oil companies, Chevron Oil Italia is considering withdrawal from the Italian market and, according to its chairman, Pio Zunino Reggio, Chevron is reassessing its presence in the rest of Western Europe. Amoco (Standard Oil), Mobil, and Gulf have already completely or partially relinquished operations in Italy, where refiners last year accumulated operating losses totaling some $1.3 billion, not including interest debts.

The long takeover battle for Britain's renowned auction house Sotheby Parke Bernet appears to have come to an end after General Felt Industries, Inc., of the U.S. agreed to sell its 29.9% interest in Sotheby's to Alfred Taubman, a Michigan real estate developer and art patron. Taubman, who already owns 14.9% of Sotheby stock, will pay 700 p per share to General Felt, which had paid less than 500 p originally. Taubman has also offered to pay the same price for at least 50% of the shares still outstanding. The whole deal would value the auction house at about £81.9 million, or $125.7 million. Sotheby's directors earlier had come out against the takeover bid by General Felt, a carpet producer based in Saddle Brook, N.J. However, they did support the competing bid by Taubman, who has made his offer conditional on the approval of the Monopolies Commission.

The cooperation between Italy's Montedison, the country's biggest chemical group, and the U.S.'s Hercules Corp. has now also been reflected on the management level. Hercules' president, Alexander Giacco, has become a member of Montedison's board of directors. The two companies have set up a joint subsidiary combining their polyethylene divisions in Italy and Belgium. Since the production capacity of the Hercules plants exceeds that of its Italian partner, Hercules Corp. is being compensated partly in cash and partly in Montedison stock - the reason that Giacco became a board member.

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Community: Commission Unveils CAP Reform Plan

The Common Market's 8 million farmers will face substantial cuts in their incomes should the Council of Ministers approve the Commission's plans for a reform of the common agricultural policy. A CAP reform was part of the assignment given to both the Council and the Commission at the Stuttgart Summit last June to try to save the Community from financial collapse.

The savings in farm policy outlays over the next three years would amount to an estimated 10 billion ECUs. Major components of the Commission's reform plan are cutbacks in farm subsidies, penalties for farmers who exceed production quotas, and curbs on imports of certain commodities through new or increased levies. These proposed measures have already brought protests from national farmers' organizations and are expected to strain even further relations with the United States, the biggest exporter of agricultural products to the EEC.

A change in the principle of guaranteed prices (and guaranteed incomes for farmers) for several commodities would mean substantial savings. The plan calls for lowering the guaranteed

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prices for grain, wine, and fruits and vegetables, but not for milk. Although Agriculture Commissioner Poul Dalsager believes that a 12% reduction in the milk price would be the most effective way of curbing milk surpluses, he thinks that such a major cut would not be politically feasible, and the Commission therefore proposes production quotas for dairies - any excess would be penalized by a tax. Also, big farms producing milk on a large scale (called milk factories) would be subject to a much higher producer's levy than the current one.

Major elements of the plan concerning third countries are proposed limits on imports of cereal substitutes from the United States, beef from Yugoslavia and Australia, and lamb from New Zealand. The Commission proposes a tax on edible oils and fats, which would act as a brake on imports of soybeans from the U.S. Soybeans have been the No. 1 U.S. farm export to the Common Market for the past decade, and the proposal of such a tax revives a suggestion made in the '70s. Commission President Gaston Thorn argues that the proposed tax is justified in that the planned cuts in subsidies for Common Market farmers also call for sacrifices on the part of countries exporting farm commodities to the EEC.

Commission Preparations for Fall Council Meetings

Although August is usually the vacation month at Community offices in Brussels, this year a far greater number of officials, especially in the Commission, will stay on the job to prepare for a series of Council meetings in late August and September. Several of these meetings will be devoted to assignments from the heads of state and government who met at the Stuttgart Summit in June. The Commission is preparing documents for these meetings, which will concentrate on three major topics: (a) a reform of the common agricultural policy; (b) the Community's future finances, including finding a lasting solution to the problem of Britain's contributions to the EC budget; and (c) the accession of Portugal and Spain.

The Commission has already submitted its plan for a reform of the agricultural policy, which will be at the top of the agenda when the Council convenes at a special session on Aug. 30. The Commission's concept for securing the Community's future financing has been known for several months, but it must be revised because at the Stuttgart Summit a signal was given to cut back expenditures rather than expand financial resources (the EC Executive wanted more VAT revenue). Subsequent Council meetings have confirmed the majority's opposition to more revenue for the budget. As for the implications of Portugal's and Spain's accession, the Commission has yet to present solutions that will be acceptable to all the States - the present members and the newcomers. The central problem is agriculture, and France is most worried about imports of low-priced Spanish and Portuguese produce.

In Brief...

On July 26, the Council extended the Community's steel production quota system to Feb. 1, 1984. Italy blocked an extension to the end of 1985 because Rome did not want to commit the incoming government, which has just been formed. However, all the States recognized the need to apply the system for another two and a half years. The Council also accepted the Commission's plan calling for steel production cutbacks of 26.7 million tons by 1985. The plan is designed to bring Europe's steel mills back into the black by eliminating some 150,000 jobs + + + The Council's failure to agree on North Sea herring quotas, an important aspect of the common fisheries policy, means not only a continued total fishing ban for EEC States but also for Norway. Norwegian fishermen will be barred from fishing in the EEC zone of the North Sea despite the agreement Norway has with the Community that provides for a 31,000-ton quota.

Germany: Tax Treatment of Business v. Private Use of Cars

The German government has abandoned a plan that would have called for taxing the use of a business car for private purposes on the assumption that the average taxpayer uses his business car 40-50% for nonbusiness purposes. (The plan originated under the Schmidt administration.) In a letter from the Finance Ministry to the Bundestag's budget committee, the Kohl administration says that the tax offices will continue to adhere to the current practice. This means that a taxpayer who uses his car for his business, or in the exercise of his profession, as well as for private purposes is assumed to use the car privately 20-25% of the time. If more than 75-80% of the expense incurred in the use of the car is deducted as a business expense, the excess has to be substantiated through a special log book *(Fahrtenbuch)*.

The tax offices have been instructed to recognize a taxpayer's records, so long as these records have been conscientiously kept over the year. However, the tax offices may depart from the standard practice in certain cases. For example, a taxpayer with a second residence or a vacation home is automatically assumed to have used the car for private purposes beyond the 20-25% limit. Physicians with a practice in the country as well as sales representatives are assumed to use their car for private purposes to a lesser extent.

OECD Less Optimistic About German Economy's Recovery

The Organization for Economic Cooperation and Development is not as optimistic in its outlook for the German economy as the Kohl administration. In its latest annual review of West Germany's economy, the OECD predicts a 0.5% rise in the gross national product for 1983 and a 1.7% increase for '84. In contrast, the government counts on an annual growth rate of up to 1.5% this year and 2.5% next year. These discrepancies can be traced to the OECD's less optimistic view of consumer behavior. While the German government expects consumers to spend, on an inflation-adjusted basis, about 1% more in 1984 than this year, the Paris-based organization foresees no tangible expansion of private consumption because of income developments and high income taxes and social security contributions. In 1982, these taxes on wages and salaries accounted for about 50% of a person's income, the OECD points out, adding that they will go up again this year. For this reason, the organization would like to see the government's plan for income tax relief realized much sooner than proposed by Bonn. The change was initially planned for 1984 but is now more likely to come in '86.

Although the OECD agrees with Bonn's medium-term objective of budget consolidation, mainly through cutbacks in government spending, it cautions against overdoing it because the economy's recovery could be jeopardized. The OECD says that with low inflation, a balance of payments surplus, and improved business confidence, the German economy is likely to benefit from more business activity and improved employment figures. However, it has doubts whether the Kohl administration's pro-business policies will achieve their goal of increasing employment in 1984. A strong recovery of business investment is needed over the next four years, the OECD says, adding that a substantial reduction in corporate taxes will eventually be necessary to achieve investments on the required scale. At a time of low capacity utilization and uncertain demand prospects, lowered business taxes may not have much immediate impact on investments. Germany's poor investment performance since the early '70s is regarded by the OECD as the "Achilles' heel" of the economy.

Britain: More Democracy in Trade Union Operations

U.K. Employment Secretary Norman Tebbit has announced that the government intends to submit legislation in the current parliamentary session to make the operations of trade unions in Britain "more democratic." Tebbit said that the June election results had made it "abundantly clear" that union members want a greater say in the affairs of their unions, and the bill to be introduced "will respond to that demand."

The proposals have been formulated after widespread consultations on the earlier discussion document, "Democracy in Trade Unions" (Cmnd. 8778), which was issued in January. They will probably be in force by the end of 1984 and concentrate on three specific areas - compulsory balloting before an official strike can be called, elections for the governing bodies of trade unions, and members' approval of the political activities of their unions.

Procedures for the election of trade union executives will have to comply with certain basic principles. Voting must be secret and by ballot; there must be an "equal and unrestricted" opportunity to vote; and each union member must be able to vote directly for the persons on the governing body. Tebbit said that these rules are "not a legal straitjacket" but "the minimum necessary" to ensure free, fair, and democratic elections.

With regard to the political activities of trade unions, Tebbit said the government accepts that a trade union should be able to adopt political objectives and set up a political fund. However, he believes that the authorization of such a political fund should be subject to periodic review by the union members, since members "should not be bound forever" by votes that may have been taken "before any of them were born." Accordingly, it is proposed that the continued operation of such a political fund be submitted to a vote by the whole membership every ten years.

Consultations on the discussion document have confirmed that there is "continuing concern" about the way in which strike decisions are taken. The government therefore proposes that, if a trade union orders, or endorses, strike action by its members in breach of their contracts of employment and without first consulting their members in a secret ballot, the union will lose its immunity in the civil courts, and an action for damages could be brought. Tebbit said that this would offer more protection against irresponsible strike action and would provide new safeguards for union members themselves, so that they could not be required to strike against their will. However, as observers have pointed out, this legislation will not affect unofficial strikes, which are often more disruptive to industrial production.

U.K. Industry, Trade Departments to Be Merged

The U.K. government's Departments of Industry and Trade are being merged "for greater effectiveness." As part of the merger, the government will establish a new Office for Corporate and Consumer Affairs, which will have broader responsibilities for competition policy, particularly with regard to corporate takeovers and mergers. Cecil Parkinson, who heads the enlarged department, said that one of the issues to be tackled by the new sub-department will be an overall review of present merger policy. An advantage of the office will be the concentration of all aspects of consumer affairs and competition under one minister, Parkinson said.

Observers believe that one positive result of the change will be the provision of more distinct and easily understood guidelines on company takeovers. Under former trade secretary Lord Cockfield, there was considerable uncertainty over the extent to which the government feels bound by the recommendations of the Monopolies and Mergers Commission.

U.K. Brokers to Switch to Negotiated Commissions

By the end of 1986, and pending the consent of Stock Exchange members, British stockbrokers will gradually switch away from the present system of fixed minimum charges to one of negotiated commissions. The government announced it has won a basic agreement on this change from the Stock Exchange, while in turn agreeing to drop a long-standing court case against the Exchange for alleged anti-competitive practices. The switch to negotiated commissions is expected to make the U.K. brokerage business far more competitive than it is now and to result in much lower charges, particularly for institutional investors. (In the United States, fixed commissions were abolished in 1975.) On the other hand, the change is also bound to make smaller brokerage houses more vulnerable to competition and could lead to mergers, or even failures. This in itself would not necessarily be viewed as a negative consequence by many financial observers, who believe that the U.K. securities industry needs large, powerful brokerage houses to compete effectively with the major international brokers.

The basic agreement between the government and the Stock Exchange does not affect the existing separation of the functions of jobbers and brokers. (Jobbers are, in effect, wholesalers and do not deal directly with the public; brokers, on the other hand, must go through jobbers for the sale and purchase of securities.) However, it is believed that, because of increased price competition, many brokers will eventually act as jobbers and, as is the case on other big international exchanges, create their own markets in shares.

Another aspect of the latest developments concerns the question of outside ownership of brokerage houses, which currently is limited to 29.9%. (For instance, last December, Security Pacific, the Los Angeles-based bank, purchased a 29.9% stake in Hoare Govett Ltd., a major London broker.) The government now has indicated that such outside owners would be permitted to be represented on the boards of the brokerage houses.

The government's willingness to settle its case against the Stock Exchange apparently stems from the need to raise enormous funds on the securities markets as the state divests itself of shareholdings in British Telecom and other state-controlled enterprises. The suit was filed in 1977 by the Office of Fair Trading and challenges some 170 Stock Exchange regulations for alleged violation of competition rules. The case had been scheduled to go to trial next year.

Denmark: Special Session on Budget Savings Plan

Denmark's Conservative prime minister, Poul Schlüter, has scheduled a special session of Parliament for Sept. 9 to win a decision on the government's proposal to cut back financial assistance to the municipalities by DKr 1.3 billion next year. Schlüter said he will tie the vote on the bill to a confidence motion and, in the event of his defeat, will call for new early general elections. In making the announcement, Schlüter said he will not allow the Opposition to have his four-party coalition administration pursue a "flabby" economic austerity course.

The special session on Sept. 9, which will interrupt Parliament's summer recess, will deal exclusively with the issue of reducing the state's financial contribution to the communal budgets. The proposal is, however, a part of the government's overall austerity program, which calls for budget savings of about DKr 10 billion and public spending cutbacks of 3% in 1984. A draft budget to this effect is to be presented later this month.

According to the latest opinion polls, only Schlüter's Conservative People's Party would stand to benefit from new elections, mainly because of the prime minister's rising popularity with the voters. The other three coalition partners in the minority administration - the Liberals, the Center, and the Christian People's Party - would probably suffer losses. Nevertheless, Schlüter is confident that the other government parties will follow his lead and, if necessary, vote for the dissolution of Parliament and early elections.

The government has been suffering a series of political defeats in recent months, notably in the areas of foreign and defense policy, where the opposition Social Democrats - the previous government party - have been making their weight felt. However, Schlüter is apparently determined not to be pushed off his economic stability course, which more and more Danes now recognize as a necessity, and for this reason he has raised the "threat" of new elections.

Switzerland: Declining Foreign Demand for Real Property

Foreign demand for real property in Switzerland dropped appreciably last year. According to the latest Justice Ministry figures, the Swiss authorities issued only 3,094 permits in 1982, 48% fewer than in 1981 (5,900). The value of real property sales to nonresidents dropped from SFr 2 billion in 1981 to SFr 1.28 billion last year, with the majority of transactions involving condominiums. The Justice Ministry attributes the decline to the introduction of quotas for second residences in the tourism centers as well as to poor economic conditions in Western Europe.

In the meantime, a parliamentary commission has basically approved the federal government's proposed revision of the law governing the sale of Swiss real property to aliens *(Lex Furgler)*. In its revised form, the law would limit annual transactions involving condominiums to two-thirds of the average number of transactions in the previous five years. This rule would mean that for the year 1985, when the revised law is to take effect, the quota would be set at 2,400 permits, which corresponds roughly to the number of condominium sales (2,131) in 1982. (See also *Doing Business in Europe, Par. 40,442.)*

Spain: Madrid Drafts Medium-Term Economic Policy Plan

The Spanish government's 1983-84 economic policy program, now being drafted, will make hardly any changes in the direction of the economy this year. Parliament will not see the plan until some time in October, so that most of the accompanying legislation could not be approved before the end of the year. The program envisages annual increases of 2.5-3.5% in the gross national product. Inflation is supposed to drop to 6% and the budget deficit to be reduced to 4% of GNP. How these goals are to be achieved has not been described in detail.

There will be several public works programs to reduce unemployment, but government officials are still debating where the emphasis should lie. The government also wants to improve conditions for businesses, but it is still unknown whether the improved conditions would emerge from deregulation, tax cuts, eased financing, or a combination of all three and perhaps even other factors. Also planned is a reform of the social security system, but again no details are available.

Observers believe that notwithstanding the planned measures the success of the medium-term economic policy program will depend on what the collective bargaining partners are prepared to contribute on their own. Prime Minister Felipe Gonzalez's recent statement that wages in other European countries constitute a lower percentage of national income than in Spain has been interpreted as an indirect admonishment - for the unions to ask for less at the bargaining table and for businesses to be equally modest in raising prices.